

CITY OF FAYETTEVILLE, NORTH CAROLINA

REPORT TO THE CITY COUNCIL

AUGUST 2, 2023



ASSURANCE, TAX & ADVISORY SERVICES



August 2, 2023

To the Honorable Mayor and Members of the City Council
City of Fayetteville, North Carolina

Attention: Honorable Mayor and Members of the City Council

We are pleased to present this report related to our audit of the basic financial statements of the City of Fayetteville, North Carolina (the City of Fayetteville or the City) as of and for the year ended June 30, 2022. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City of Fayetteville's financial reporting process.

This report is intended solely for the information and use of the City Council and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the City of Fayetteville.

PBMares, LLP

PBMares, LLP

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REQUIRED COMMUNICATIONS

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Our Responsibilities With Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America 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 identified significant risks.

Accounting Policies and Practices

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.

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.

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.

Basis of Accounting

The financial statements were prepared on the assumption that the City of Fayetteville will continue as a going concern.

We evaluated the events and conditions and concluded that there was not substantial doubt about the City of Fayetteville's ability to continue as a going concern for a reasonable period of time.

Audit Adjustments and Uncorrected Misstatements

Audit Adjustments made to the original trial balance presented to us are summarized in the attached list of Recorded Audit Adjustments.

Uncorrected misstatements are summarized in the attached list of Uncorrected Misstatements.

Observations About the Audit Process

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.

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 or 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 internal control weakness in internal control over financial reporting identified during our audit of the financial statements. This communication is attached as Exhibit A.

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.

Performance Indicators

The North Carolina Local Government Commission (LGC) requires certain key performance indicators be communicated to those charged with governance and these indicators are attached as Exhibit C. In the event a performance indicator does not meet the LGC's minimum metrics, the City Council will be required to provide a formal action plan in writing to the LGC within 60 days of the receipt of this document.

For the year ended June 30, 2022, the City of Fayetteville had two performance indicators that require communication to the LGC by the City Council.

SIGNIFICANT ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following summarizes the significant accounting estimates reflected in the City of Fayetteville's June 30, 2022 financial statements.

Depreciation of Capital Assets

Accounting policy	The City depreciates capital assets in the government-wide and proprietary fund financial statements.
Management's estimation process	Depreciation by straight-line method over the estimated useful life of the asset.
Basis for our conclusion on the reasonableness of the estimate	Estimation process is consistent with accounting policy and in accordance with accounting principles generally accepted in the United States of America (GAAP) based on our audit procedures performed in this area.

Compensated Absences

Accounting policy	The City records a liability for earned vacation and compensatory time.
Management's estimation process	Management calculates a liability by using current pay rates and time accumulated by employees.
Basis for our conclusion on the reasonableness of the estimate	Estimation process is consistent with accounting policy and in accordance with GAAP based on our audit procedures performed in this area.

Health Insurance Claims Incurred but Not Reported (IBNR)

Accounting policy	The City accrues a liability in the government-wide statements and the Internal Service Fund.
Management's estimation process	Actuarial calculation from a third-party administrator based on inputs from self-insured health insurance program.
Basis for our conclusion on the reasonableness of the estimate	Estimation process is consistent with accounting policy and in accordance with GAAP based on our audit procedures performed in this area.

Accrued Other Postemployment Benefits

Accounting policy	The City accrues a liability in the government-wide financial statements.
Management's estimation process	Actuarial calculations from a third-party actuary are used.
Basis for our conclusion on the reasonableness of the estimate	Estimation process is consistent with accounting policy and in accordance with GAAP based on our audit procedures performed in this area.

Allowance for Doubtful Accounts

Accounting policy	The City records a contra-asset to offset accounts receivable to estimated net collectible amounts.
Management’s estimation process	Estimated by the City’s management based on the aging of the receivables and knowledge of the individual accounts.
Basis for our conclusion on the reasonableness of the estimate	Estimation process is consistent with accounting policy and in accordance with GAAP based on our audit procedures performed in this area.

Fair Value of Investments

Accounting policy	The City records investments at fair value.
Management’s estimation process	The City relies on the bank to report fair value.
Basis for our conclusion on the reasonableness of the estimate	Estimation process is consistent with accounting policy and in accordance with GAAP based on our audit procedures performed in this area.

LGERS Pension Asset (Liability) and Special Separation Allowance Liability

Accounting policy	The City records an asset or liability in the government-wide financial statements.
Management’s estimation process	Actuarial calculations from a third-party actuary are used.
Basis for our conclusion on the reasonableness of the estimate	Estimation process is consistent with accounting policy and in accordance with GAAP based on our audit procedures performed in this area.

Right-to-use lease assets, subscription assets and corresponding liabilities

Accounting policy	The City records a right-to-use lease asset and corresponding liability in the government-wide financial statements.
Management’s estimation process	Estimation process is based on the present value of future minimum lease payments discounted to present value utilizing either the City’s incremental borrowing rate or the interest rate implicit in the lease or subscription
Basis for our conclusion on the reasonableness of the estimate	Estimation process is consistent with accounting policy and in accordance with GAAP based on our audit procedures performed in this area.

RECORDED AUDIT ADJUSTMENTS

Management corrected the following material misstatements that were identified as a result of our audit procedures.

Description	Federal & State Financial Assistance Fund				
	Assets	Liabilities	Equity	Revenue	Expense
To adjust FEMA Emergency Assistance Revenue and Accounts Receivable due to recording of amounts in excess of FEMA obligations.	\$ (817,925)	\$ -	\$ -	\$ (817,925)	\$ -
Total effect	<u>-</u>	<u>-</u>	<u>(817,925)</u>	<u>\$ (817,925)</u>	<u>\$ -</u>
Balance sheet effect	<u>\$ (817,925)</u>	<u>\$ -</u>	<u>\$ (817,925)</u>		

UNCORRECTED MISSTATEMENTS

We identified the following uncorrected misstatements that management has concluded are not, individually or in the aggregate, material to the financial statements. We agree with management's conclusion in that regard.

Description	General Fund				
	Assets	Liabilities	Fund Balance	Revenue	Expense
Incorrect recording of FEMA grant revenue and receivable					
Factual	\$ 93,800	\$ -	\$ -	\$ 93,800	\$ -
Projected	120,308	-	-	120,308	-
Total effect			214,108	\$ 214,108	\$ -
Statement of Net Position effect	\$ 214,108	\$ -	\$ 214,108		

Description	Governmental Activities				
	Assets	Liabilities	Net Position	Revenue	Expense
Incorrect recording of FEMA grant revenue and receivable					
Factual	\$ 93,800	\$ -	\$ -	\$ 93,800	\$ -
Projected	120,308	-	-	120,308	-
Total effect			214,108	\$ 214,108	\$ -
Statement of Net Position effect	\$ 214,108	\$ -	\$ 214,108		

Description	Fleet Maintenance Fund				
	Assets	Liabilities	Net Position	Revenue	Expense
Incorrect application of LGERS Allocation	\$ (185,384)	\$ -	\$ -	\$ 185,384	\$ -
Total effect			-	\$ 185,384	\$ -
Statement of Net Position effect	\$ (185,384)	\$ -	\$ -		

Description	Airport Fund				
	Assets	Liabilities	Net Position	Revenue	Expense
Cutoff timing error for collection of cash for a receivable					
Cash	\$ 530,881	\$ -	\$ -	\$ -	\$ -
Accounts Receivable	(530,881)	-	-	-	-
Total effect			-	\$ -	\$ -
Statement of Net Position effect	\$ -	\$ -	\$ -		

EXHIBIT A

Internal Control Matters

August 2, 2023

To the Honorable Mayor and Members of the City Council
City of Fayetteville, North Carolina

In planning and performing our audit of the financial statements of the City of Fayetteville, North Carolina (the City of Fayetteville or the City) as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control 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. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a 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.

Following is a description of an other identified deficiency in internal control that we determined did not constitute a significant deficiency or material weakness:

LGERS Pension Allocation

During testing of the LGERS pension allocation, we noted that the entry made to allocate current year reduction in pension resulted in the Fleet Maintenance Fund showing a Net Pension Asset while all other opinion units were correctly showing a net pension liability. This is due to the application of the journal entry versus evaluation of the liability, deferred outflow and deferred inflow balances by opinion unit.

Recommendation

We recommend management review the allocation based on what the balances of the liability, deferred inflow and deferred outflow should be at year end, and develop the adjusting journal entry from that analysis.

Accounts Receivable Reconciliation

During the accounts receivable testing, we noted one instance were the revenue related to 2023 but it was included as accounts receivables in 2022. We also noted one instance where the accounts receivable balance was not adjusted for a payment that was received prior to June 30, 2022. Additionally, we found one instance in the general fund where the accounts receivable and revenue did not reflect the amount expected from FEMA. As a result the accounts receivable was understated by \$93,800. This is caused by oversight in the review of the processing of the individual payments and accruals at year end.

Recommendation

We recommend management to review the accounts receivable and related payments after year end to properly determine if any adjustments are needed for proper cash and revenue recognition.

Accounts Payable Cutoff

During the subsequent disbursement testing, we identified one instance where the expense occurred in fiscal year 2022, but was not included in accounts payable as of June 30, 2022. This is due to oversight during the review of the invoice processed through standard purchases and accounts payable.

Recommendation

We recommend management perform a detailed review of expenses after year end to properly determine which period the services or goods relate to and accrue accordingly.

SMAP Compliance – Report Submission

The SMAP state grant program requires an Annual Operating Statistics Report be provided to NCDOT each year. The information is ridership details that is also provided to the National Transit Database (NTD) on a monthly basis. The City was not able to produce evidence of report submission to the NCDOT, however was able to produce support for the NTD submissions required by the Federal Transit Administration.

Recommendation

We recommend the responsibility for filing the NCDOT Annual Operating Statistics Report be assigned to someone knowledgeable of the grant requirements to ensure timely submission as well as evidence of filing.

* * * * *

This communication is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than these specified parties.

PBMares, LLP

PBMares, LLP

EXHIBIT B

Significant Written Communications Between Management and Our Firm

Representation Letter



August 2, 2023

PBMares LLP
3621 John Platt Drive
Morehead City, NC 28557

This representation letter is provided in connection with your audit of the basic financial statements of City of Fayetteville, North Carolina (the City) as of and for the year ended June 30, 2022 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of August 2, 2023:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated April 19, 2022, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of controls to prevent and detect fraud.
4. The methods, data, and significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement, or disclosure that is reasonable in the context of U.S. GAAP, and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party transactions have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Types of related party transactions engaged in by the City include:
 - a. Those with the primary government having accountability for the City.
 - b. Those with component units for which the City is accountable.

- c. Those with other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.
 - d. Interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements and guarantees.
6. The financial statements properly classify all funds and activities in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as amended.
 7. The City is following either its established accounting policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available or is following paragraph 18 of GASB Statement No. 54 to determine the fund balance classifications for financial reporting purposes.
 8. The financial statements include all fiduciary activities required by GASB Statement No. 84, *Fiduciary Activities*, as amended.
 9. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.
 10. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
 11. Management has followed applicable laws and regulations in adopting, approving and amending budgets.
 12. Risk disclosures associated with deposit and investment securities and derivative transactions are presented in accordance with GASB requirements.
 13. Provisions for uncollectible receivables have been properly identified and recorded.
 14. Capital assets, including infrastructure, intangible assets, and right of use assets are properly capitalized, reported and, if applicable, depreciated.
 15. The government has properly separated information in debt disclosures related to direct borrowings and direct placements of debt from other debt and disclosed any unused lines of credit, collateral pledged to secure debt, terms in the debt agreements related to significant default or termination events with finance-related consequences and significant subjective acceleration clauses in accordance with GASB Statement No. 88.
 16. Components of net position (net investment in capital assets, restricted, and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
 17. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:
 - a. The City has no significant amounts of idle property and equipment.
 - b. The City has no plans or intentions to discontinue the operations of any activities or programs or to discontinue any significant operations.

- c. No provision has been made to reduce applicable assets that have permanently declined in value to their realizable values.
18. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
 - a. To reduce receivables to their estimated net collectable amounts.
 - b. To reduce obsolete, damaged, or excess inventories to their estimated net realizable values.
 - c. For risk retention, including uninsured losses or loss retentions and incurred but not reported accruals attributable to events occurring through June 30, 2022.
 - d. For pension obligations, postemployment benefits other than pensions, and deferred compensation agreements attributable to employee services rendered through June 30, 2022.
 - e. For depreciation of capital assets, which have been recorded using the straight-line method over the estimated useful life of the assets.
 - f. To determine the estimated lives of capital assets and determine that no impairments have occurred for the current year.
 - g. To record investments at fair value.
 - h. To record donated assets at acquisition value, which is consistent with the cost to construct the asset.
19. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
20. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
21. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
22. We acknowledge our responsibility for compliance with laws and regulations applicable to the City of Fayetteville including adopting, approving, and amending budgets
23. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private, that is not disclosed in the financial statements.
24. We have complied with all aspects of laws, regulations and provisions of contracts and agreements that would have a material effect on the financial statements in the event of noncompliance.

25. We believe implementation of the GASB Statements listed below is appropriate:
- a. GASB Statement No. 87, *Leases* – the objective of this statement is to better meet the information needs of financial statement users by improving the accounting and financial reporting for leases.
 - b. GASB Statement No. 96, *Subscription Based Information Technology Arrangements* – primary objective of this statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (government).
26. We have informed you of all uncorrected misstatements.

As of and for the year ended June 30, 2022 we believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate, to the corresponding opinion unit and the financial statements taken as a whole. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Description	General Fund				
	Effect - Increase (Decrease)				
	Assets	Liabilities	Fund Balance	Revenue	Expense
Incorrect recording of FEMA grant revenue and receivable					
Factual	\$ 93,800	\$ -	\$ -	\$ 93,800	\$ -
Projected	\$ 120,308	-	-	\$ 120,308	-
Total effect			214,108	\$ 214,108	\$ -
Statement of Net Position effect	\$ 214,108	\$ -	\$ 214,108		

Description	Governmental Activities				
	Effect - Increase (Decrease)				
	Assets	Liabilities	Net Position	Revenue	Expense
Incorrect recording of FEMA grant revenue and receivable					
Factual	\$ 93,800	\$ -	\$ -	\$ 93,800	\$ -
Projected	\$ 120,308	-	-	\$ 120,308	-
Total effect			214,108	\$ 214,108	\$ -
Statement of Net Position effect	\$ 214,108	\$ -	\$ 214,108		

Description	Fleet Maintenance Fund				
	Effect - Increase (Decrease)				
	Assets	Liabilities	Net Position	Revenue	Expense
Incorrect application of LGERS Allocation	\$ (185,384)	\$ -	\$ -	\$ 185,384	\$ -
Total effect			-	\$ 185,384	\$ -
Statement of Net Position effect	\$ (185,384)	\$ -	\$ -		

Description	Airport Fund				
	Effect - Increase (Decrease)				
	Assets	Liabilities	Net Position	Revenue	Expense
Cutoff timing error for collection of cash for a receivable					
Cash	\$ 530,881	\$ -	\$ -	\$ -	\$ -
Accounts Receivable	(530,881)	-	-	-	-
Total effect			-	\$ -	\$ -
Statement of Net Position effect	\$ -	\$ -	\$ -		

Information Provided

27. We have provided you with:
- Access to all information of which we are aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation and other matters.
 - Additional information that you have requested from us for the purpose of the audit.
 - Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.
 - Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
28. All transactions have been recorded in the accounting records and are reflected in the basic financial statements.
29. We have disclosed to you the results of our assessment of risk that the basic financial statements may be materially misstated as a result of fraud.

30. It is our responsibility to establish and maintain internal control over financial reporting. One of the components of an entity's system of internal control is risk assessment. We hereby represent that our risk assessment process includes identification and assessment of risks of material misstatement due to fraud. We have shared with you our fraud risk assessment, including a description of the risks, our assessment of the magnitude and likelihood of misstatements arising from those risks, and the controls that we have designed and implemented in response to those risks.
31. We have no knowledge of allegations of fraud or suspected fraud affecting the City's basic financial statements involving:
 - a. Management.
 - b. Employees who have significant roles in internal control.
 - c. Others where the fraud could have a material effect on the basic financial statements.
32. We have no knowledge of any allegations of fraud or suspected fraud affecting the City basic financial statements received in communications from employees, former employees, analysts, regulators, or others.
33. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations.
34. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. At this time, the outcomes are either unknown or not material to the financial statements.
35. We have disclosed to you the identity of all of the City's related parties and all the related-party relationships and transactions of which we are aware.
36. We have informed you of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the City's ability to record, process, summarize and report financial data.
37. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
38. We agree with the findings of the specialist in evaluating the workers' compensation liability and health/medical liabilities and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give instructions, or cause any instructions to be given, to the specialist with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialist.
39. We believe that the actuarial assumptions and methods used by the actuary for funding purposes and for determining accumulated Plan benefits are appropriate in the circumstances. We did not give instructions, or cause any instructions to be given, to the specialist with respect to the

values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the Plan's actuary.

40. We believe that the information obtained from the audited financial statements of and other participant information provided by the NC Local Governmental Employees' Retirement System is appropriate in the circumstances. We did not give instructions, or cause any instructions to be given, to the Plan or its auditor in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the Plan or its auditor.
41. We have reviewed and agree with the changes in assumptions reported by the actuary for the OPEB and Pension Plans.

Supplementary Information

42. With respect to supplementary information presented in relation to the basic financial statements as a whole:
 - a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP, regulatory or contractual requirements, management's criteria, or other requirements.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. When supplementary information is not presented with the audited basic financial statements, we will make the audited basic financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.
43. With respect to management's discussion and analysis and the schedules of funding progress and contributions presented as required by the Governmental Accounting Standards Board to supplement the basic financial statement:
 - a. We acknowledge our responsibility for the presentation of such required supplementary information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.

Compliance Considerations

In connection with your audit conducted in accordance with *Government Auditing Standards*, we confirm that management:

44. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
45. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the auditee.
46. Is not aware of any instances of identified and suspected fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements.
47. Is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
48. Acknowledges its responsibility for the design, implementation and maintenance of controls to prevent and detect fraud.
49. Has taken timely and appropriate steps to remedy identified or suspected fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements that the auditor reports.
50. Has a process to track the status of audit findings and recommendations.
51. Has identified for the auditor previous audits, attestation engagements and other studies related to the objectives of the audit and whether related recommendations have been implemented.
52. Has identified for the auditor any investigations or legal proceedings that have been initiated with respect to the period under audit.
53. Has provided views on the auditor's reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report.
54. Acknowledges its responsibilities as it relates to non-audit services performed by the auditor, including that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.

In connection with your audit of federal awards conducted in accordance with Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the *State Single Audit Implementation Act*, and the passenger facility charge program in accordance with the *Passenger Facility Charge Audit Guide for Public Agencies* (Audit Guide), we confirm:

55. Management is responsible for complying, and has complied, with the requirements of Uniform Guidance, the *State Single Audit Implementation Act*, and Audit Guide.

56. Management is responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of its federal and State programs and have complied, in all material respects, with those requirements.
57. Management is responsible for establishing and maintaining, and has established and maintained, effective internal control over compliance for federal and State programs that provides reasonable assurance that the auditee is managing federal and State awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on its federal and State programs and its passenger facility charge program.
58. Management has prepared the schedule of expenditures of federal and State awards and passenger facility charges (SEFSA) in accordance with the Uniform Guidance, the Audit Guide, and the *State Single Audit Implementation Act* and has included expenditures made during the period being audited for all awards provided by federal or State agencies in the form of grants, federal or State cost reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other assistance.
59. Management has identified and disclosed all of its government programs and related activities subject to the Uniform Guidance and Audit Guide compliance audit. Those programs include:

Federal/State Assistance:

10.923	NC Department of Agriculture Watershed Restoration Project
14.218	CDBG Entitlement Grant Cluster
14.228	CDBG Disaster Relief Grants
14.239	HOME Investment Partnerships Program
14.892	Office of Public Housing Investment Partnerships Program
15.904	2020 Historic Preservation
16.034	2020 Coronavirus Emergency Supplemental Funding
16.609	Project Safe Neighborhoods 9
16.833	National Sexual Assault Initiative
16.922	Equitable Sharing Program
16.710	Fayetteville Peer Support Project
16.738	Edward Byrne Memorial Justice Assistance Grant
21.023	Emergency Rental Assistance
21.027	Coronavirus State and Local Fiscal Recovery Funds
20.106	Airport Improvement Program
20.507	FTA: Federal Transit Formula Grants
20.513	FTA: Enhanced Mobility for Seniors and Individuals with Disabilities
66.458	Clean Water State Revolving Loan (from PWC in current year)
93.044	Special Programs for the Aging, Senior Citizens Service Center
97.036	Disaster Grants – Public Assistance
97.044	Assistance to Firefighters
97.083	Homeland Security Grant Program- Training
97.090	Law Enforcement Officer Reimbursement Agreement Programs

State Only Assistance:

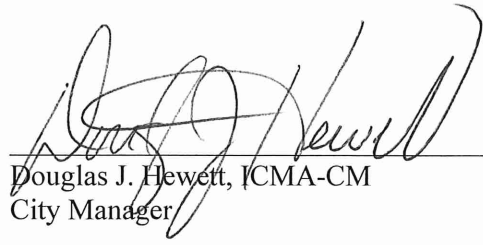
NC Department of Agriculture	Lock's Creek Debris Removal
NCDOT	Powell Bill
NCDOT – Dept. of Aviation	State Aid to Airports

NC Office of State Budget and Historic Buildings and Sites
Management
NC Office of State Budget and Pedestrian Safety Improvements
Management
NC Dept. of Public Safety Hazmat RRT Grants
NC Dept. of Public Safety Juvenile Restitution

60. Management has identified and disclosed to the auditor the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program and the passenger facility charge program.
61. Management has made available all federal awards (including amendments, if any) and any other correspondence relevant to federal and State programs and related activities that have taken place with federal and State agencies or pass-through entities.
62. Management has indicated that it is aware of no questioned amounts and no known noncompliance with the direct and material compliance requirements, if any, of federal or State awards.
63. Management believes that the City has complied with the direct and material compliance requirements.
64. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
65. Management has provided to the auditor its interpretations of any compliance requirements that are subject to varying interpretations.
66. There have been no communications from federal or State awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
67. Management has disclosed to the auditor the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
68. Management is responsible for taking corrective action on audit findings of the compliance audit.
69. Management has provided the auditor with all information on the status of the follow-up on prior audit findings by federal and State awarding agencies and pass-through entities, including all management decisions.
70. There have been no subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

71. There has been no known noncompliance with direct and material compliance requirements occurring subsequent to the period covered by the auditor's report or stated that there were no such known instances.
72. There have been no changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to the period covered by the auditor's report.
73. Federal and State program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
74. The copies of federal and State program financial reports provided to the auditor are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
75. If applicable, management has monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.
76. If applicable, management has issued management decisions for audit findings that relate to federal awards it makes to subrecipients and that such management decisions are issued within six months of acceptance of the audit report by the FAC. Additionally, management has followed up to ensure that the subrecipient takes timely and appropriate action on all deficiencies detected through audits, on-site reviews and other means that pertain to the federal award provided to the subrecipient from the pass-through entity.
77. If applicable, management has considered the results of subrecipient monitoring and audits, and has made any necessary adjustments to the City's own books and records.
78. Management has charged costs to federal and State awards in accordance with applicable cost principles.
79. Management is responsible for, and has accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by Uniform Guidance and the *State Single Audit Implementation Act*.
80. The reporting package does not contain protected personally identifiable information.
81. Management has accurately completed the appropriate sections of the data collection form.
82. If applicable, management has disclosed all contracts or other agreements with service organizations.
83. If applicable, management has disclosed to the auditor all communications from service organizations relating to noncompliance at those organizations.

City of Fayetteville, North Carolina



Douglas J. Hewett, ICMA-CM
City Manager



Jody Picarella, CPA, MBA
Chief Financial Officer

EXHIBIT C

Performance Indicators

PERFORMANCE INDICATORS

The self-reported information from your unit's audit report was used to generate the following trends and performance indicators. We have created this Performance Indicator tab to make these indicators available to auditors and local governments when your audit is conducted. If any unit's results are shaded red, the unit must submit a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters" within 60 days from the auditor's board presentation. The response must address all performance indicators shaded in red.

Unit Name:	Fayetteville	Fiscal Year 2022	Explanation of Performance Indicator
Unit Number:	50136		

In the past, units of government have been grouped by population to evaluate ratios and benchmarking (including Fund Balance Available). Beginning with fiscal year 2020, we have grouped units by General Fund expenditures for purposes of evaluating the minimum amount of fund balance a unit needs to operate. A unit's General Fund expenditures proved to be a better correlation to the amount of funds balance needed to operate, especially for units with large higher education or tourism populations. Activity from Debt Service Funds (if applicable) is included in the calculation because these funds typically originate from the General Fund and are transferred to a Debt Service Fund.

The table below lists the thresholds that are used in the analysis of your unit's fiscal health. These thresholds were determined based on an analysis of previous years general fund activity. These thresholds will be monitored and updated as applicable.

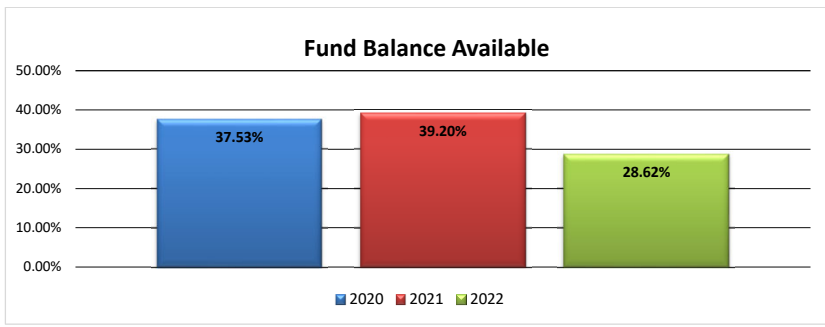
Municipalities			
General Fund Expenditures below:	Median FBA as % of Expenditures without Powell Bill	Minimum Thresholds FBA as % of Expenditures	# of Months FBA using Annualized Expenditures
\$100,000	260%	100%	12.00
\$100,000 to \$999,999	132%	71%	8.52
\$1,000,000 to \$9,999,999	63%	34%	4.08
Above \$10,000,000	46%	25%	3.00

Counties			
General Fund Expenditures below:	Median FBA as % of Expenditures without Powell Bill	Minimum Thresholds FBA as % of Expenditures	# of Months FBA using Annualized Expenditures
Below \$100,000,000	39%	20%	2.40
\$100,000,000 and above	32%	16%	1.92

Units of government are grouped by general fund expenditures for purposes of evaluating available fund balance as a percentage of expenditures (GF FBA%). Each grouping category has its own minimum threshold. If you are in the lower quartile your GF FBA% might be considered a performance indicator of concern and you might be asked to communicate to us. To the left are the minimum thresholds for Municipalities and Counties.

GENERAL FUND:	Minimum Threshold	Unit Results	
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1.



25% -- Average of similar units is 46%

28.62%

Fund balance available for appropriation is an important reserve for local governments to provide cash flow during periods of declining revenues and to be used for emergencies and unforeseen expenditures. The information to the left indicates the amount of available cash on hand. You will also see the average for units of your size. **Note that 8.33% represents enough fund balance to cover only one month of expenditures.** Normally, a unit has to either increase revenues or decrease expenditures to increase fund balance available.

This calculation looks at fund balance available plus debt service fund balance (if applicable) less Powell Bill. This number is then divided by the total of total expenditures plus transfers out less bond proceeds.

Unit Name:		Fayetteville		Fiscal Year 2022		Explanation of Performance Indicator	
Unit Number:		50136					
GENERAL FUND:				Minimum Threshold	Unit Results		
2.	There was appropriated fund balance for the General Fund in the 2022 budget <u>AND</u> 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	If the General Fund has more expenditures than revenues because of operational issues and fund balance was appropriated to cover the loss, the continuation of this practice could result in deterioration of a unit's fund balance available.	
3.	The General Fund had total fund balance less than zero - Fund Deficit			Positive Fund Balance	\$95,165,893	The General Fund has a fund deficit which means that the unit's revenues and other receipts are inadequate to support its operations. G.S. 159 13(b)(2) requires that the board fund the full amount of a prior fiscal year's deficit in the current fiscal year's budget. Therefore, this deficit should have been funded immediately after the June 30, fiscal year-end. The law requires such action be taken to stop any further deterioration of the overall financial condition of the fund. Please let us know if the deficit was funded in the budget, and what actions the unit plans to take to bring the general fund balance up to an acceptable level.	

Unit Name:		Fayetteville			Fiscal Year 2022		Explanation of Performance Indicator								
Unit Number:		50136													
WATER SEWER FUND:					Minimum Threshold	Unit Results	Note: If more than one performance indicator is identified, one proposed solution may solve all water and sewer performance indicators.								
4.	<p>Quick Ratio-Water and Sewer</p> <table border="1"> <tr><th>Year</th><th>Quick Ratio</th></tr> <tr><td>2020</td><td>0.00</td></tr> <tr><td>2021</td><td>0.00</td></tr> <tr><td>2022</td><td>0.00</td></tr> </table>				Year	Quick Ratio	2020	0.00	2021	0.00	2022	0.00	Equal or greater than 1	#DIV/0!	A Quick Ratio less than 1 indicates that the unit owes more for its current bills than what it has on hand in unrestricted cash and investments plus what is owed from customers (accounts receivable). This could indicate that the fund may have difficulty paying its current bills. If this pattern continues, the water and/or sewer system may not be sustainable.
Year	Quick Ratio														
2020	0.00														
2021	0.00														
2022	0.00														
Cash Flow Indicators:		2020	2021	2022	Minimum Threshold	Unit Results									
5.	Operating Net Income (Loss) excluding depreciation, including debt service principal and interest	N/A	N/A	N/A	Greater than zero	N/A	This calculation subtracts operating expenses from operating revenues. Depreciation expense is not included in the calculation but debt principal and interest payments are included. A negative balance indicates that your rates are not covering your operating expenses and debt service payments.								
6.	Unrestricted cash /total expenses excluding depreciation, including debt service principal and interest	N/A	N/A	N/A	Greater than 16% (2 months)	N/A	This indicator calculates how many month's worth of expenses (including debt principal and interest but not depreciation) a unit can pay based on the amount of unrestricted cash at year-end. The typical billing cycle is one month (8.33%) and one extra month usually gives a local government enough cash to handle unusual monthly expenses (16.66%). This 16% would be the bare minimum necessary to keep the fund from experiencing cash flow issues.								
7.	It appears your Water Sewer Fund has transfers-in for the support of operations that are greater than 3% of the total of operating and non-operating expenses. Please discuss the purpose of such transfers-in and if you plan to continue these transfers-in.			No		No	The rate structure of the Water and Sewer Fund should support the operating expenses of the fund without operating subsidies or transfers from other funds.								

Unit Name: Unit Number:		Fayetteville 50136			Fiscal Year 2022		Explanation of Performance Indicator								
ELECTRIC FUND:					Minimum Threshold	Unit Results	Note: If more than one performance indicator is identified, one proposed solution may solve all electric performance indicators.								
8.	<table border="1"> <caption>Quick Ratio-Electric Data</caption> <thead> <tr> <th>Year</th> <th>Quick Ratio</th> </tr> </thead> <tbody> <tr> <td>2020</td> <td>8.77</td> </tr> <tr> <td>2021</td> <td>0.00</td> </tr> <tr> <td>2022</td> <td>0.00</td> </tr> </tbody> </table>				Year	Quick Ratio	2020	8.77	2021	0.00	2022	0.00	Equal or greater than 1	#DIV/0!	A Quick Ratio less than 1 indicates that the unit owes more for its current bills than what it has on hand in unrestricted cash and investments plus what is owed from customers (accounts receivable). This could indicate that the fund may have difficulty paying its current bills. If this pattern continues, the electric system may not be sustainable.
Year	Quick Ratio														
2020	8.77														
2021	0.00														
2022	0.00														
Cash Flow Indicators:		2020	2021	2022	Minimum Threshold	Unit Results									
9.	Operating Net Income (Loss) excluding depreciation, including debt service principal and interest	\$33,630,100	N/A	N/A	Greater than zero	N/A	This calculation subtracts operating expenses from operating revenues. Depreciation expense is not included in the calculation but debt principal and interest payments are included. A negative balance indicates that your rates are not covering your operating expenses.								
10.	Unrestricted cash /total expenses excluding depreciation, including debt service principal and interest	43.58%	N/A	N/A	Greater than 16% (2 months)	N/A	This indicator calculates how many month's worth of expenses (including debt principal and interest but not depreciation) a unit can pay based on the amount of unrestricted cash at year-end. The typical billing cycle is one month (8.33%) and one extra month usually gives a local government enough cash to handle unusual monthly expenses (16.66%). This 16% would be the bare minimum necessary to keep the fund from experiencing cash flow issues.								

Unit Name:		Fayetteville		Fiscal Year 2022		Explanation of Performance Indicator	
Unit Number:		50136					
GENERAL PERFORMANCE INDICATORS:			2022	Target			
11.	The 2022 Audit Report is expected to be submitted within five months plus one day from the fiscal year end per the auditor. (December 1st for most units)	No	5 months plus one day after the fiscal year end	Late	As stewards of the public's resources, the governing body is responsible for ensuring that the audited financial statements are available to the public in a timely manner. External groups such as the North Carolina General Assembly, federal and State agencies that provide funding, and other public associations need current financial information about your local government as well.		
			2022	Target			
12.	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%	This indicator shows that the local government did not collect 3% (or more) of its budgeted ad valorem taxes. This could be an indicator of negative economic events, inaccurate budgeting, and/or issues with the collection process. Uncollected revenues at the 3% level represent several pennies of the tax rate.		
			2022	Target			
13.	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.	No Change	Any estimated decrease	No Change	You indicated that you expect a decrease in property value for your next property revaluation which could result in lost tax revenue.		
			2022	Target			
14.	Did your audit disclose as a finding any budget violations? (Yes or No)	No	No over-expenditures	No	The unit has expenditures that exceed the legal budget ordinance. This indicates that the unit's purchase order system, contract approval process and / or payment process is not in compliance with North Carolina General Statute 159.		
			2022	Target			
15.	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.	Unit is not on the Unit Assistance List at this time		Unit is not on the Unit Assistance List at this time	N/A-Unit is not on the Unit Assistance List.		
			2022	Target			
16.	The Unit had material weaknesses, significant deficiencies, and/or statutory violations that should be addressed in the FPIC Response Letter.	Yes		Yes	This indicator lists whether the unit has any material weaknesses, significant deficiencies, or management letter comments that require a response.		
17.	The unit had a board-appointed finance officer the entire fiscal year.	Yes		Yes	This indicator is to determine if during the fiscal year, the unit was without a board-appointed finance officer.		

Unit Name:		Fayetteville		Fiscal Year 2022		Explanation of Performance Indicator	
Unit Number:		50136					
GENERAL PERFORMANCE INDICATORS:			2022	Target			
18.	The unit had problems with debt service payments being late and/or did not comply with the bond covenants.	No		No		This indicator lists whether or not the unit has issues with debt service payments or bond covenants.	
			2022	Target			
19.	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. OR If you are not a member of the Eastern Municipal Power Agency it appears that you have violated your unit's transfer policy.	No		No		This indicator shows if there were electric transfers in in violation of G.S. 159B-39 or in violation of the unit's transfer policy.	
			2022	Target			
20.	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? <u>Please include details of the issue in cell J44 to the right and in your FPIC Response.</u>	No		No		This indicator lists any other issues that the unit should address.	