



February 23, 2026



Certified Public Accountants & Consultants

Financial Results for the Year Ended June 30, 2025

Agenda



- Financial Results

- The Financial Statements
- Audit Opinion (Unmodified)
- Benchmarking comparative results

- Compliance Results

- Government Auditing Standards
 - Two material weaknesses in internal control identified
- Uniform Guidance and State Single Audit Implementation Act
 - No instances of noncompliance, material weaknesses or significant deficiencies identified

- Performance Indicators of Concern

- One indicator requiring response by the City Council

Components of the Financial Report



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

CITY OF FAYETTEVILLE, NC

Types of Opinions

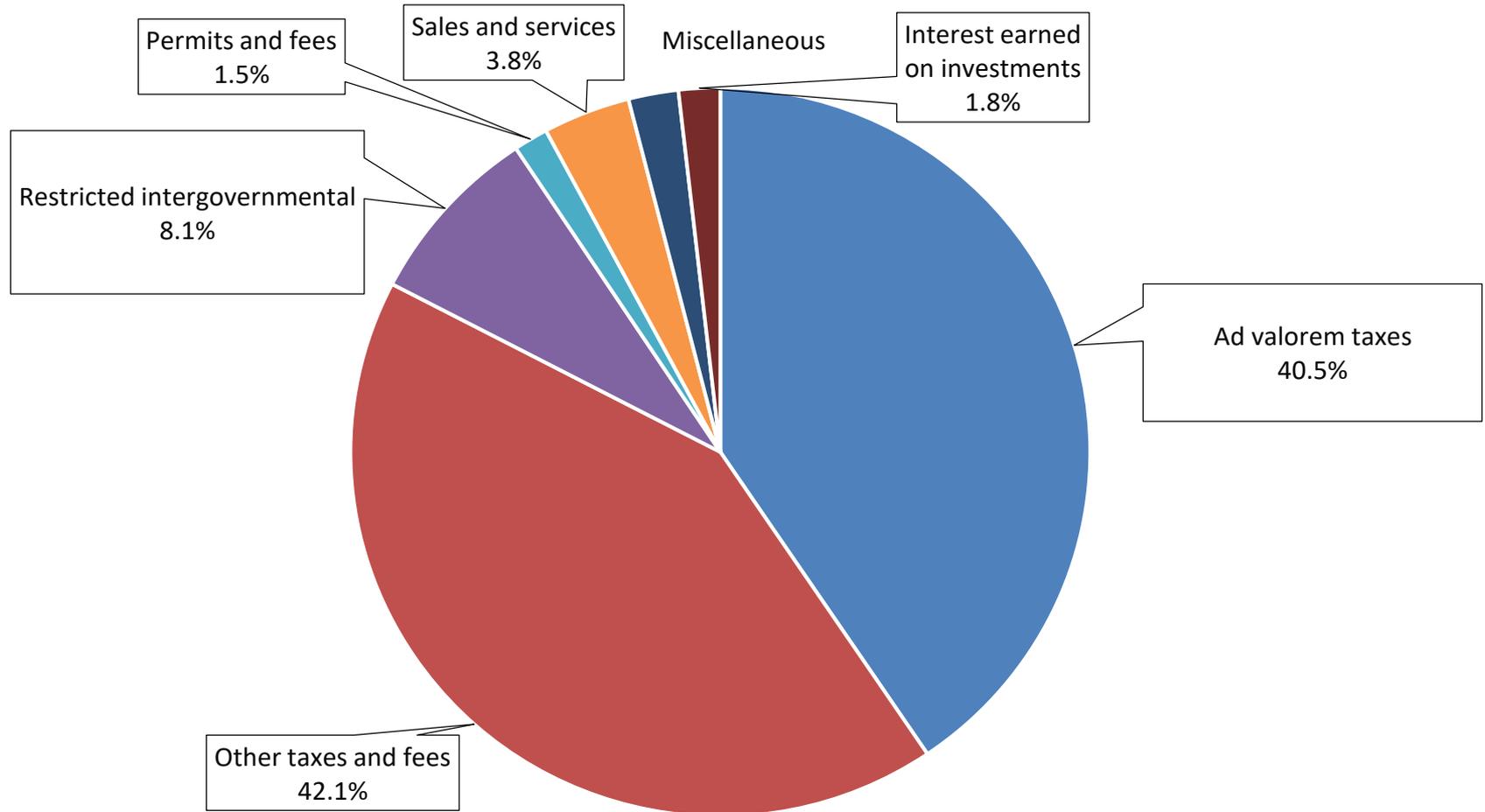


- Adverse
- Disclaim
- Qualified
- **Unmodified – “Clean” (Highest Level of Assurance)**

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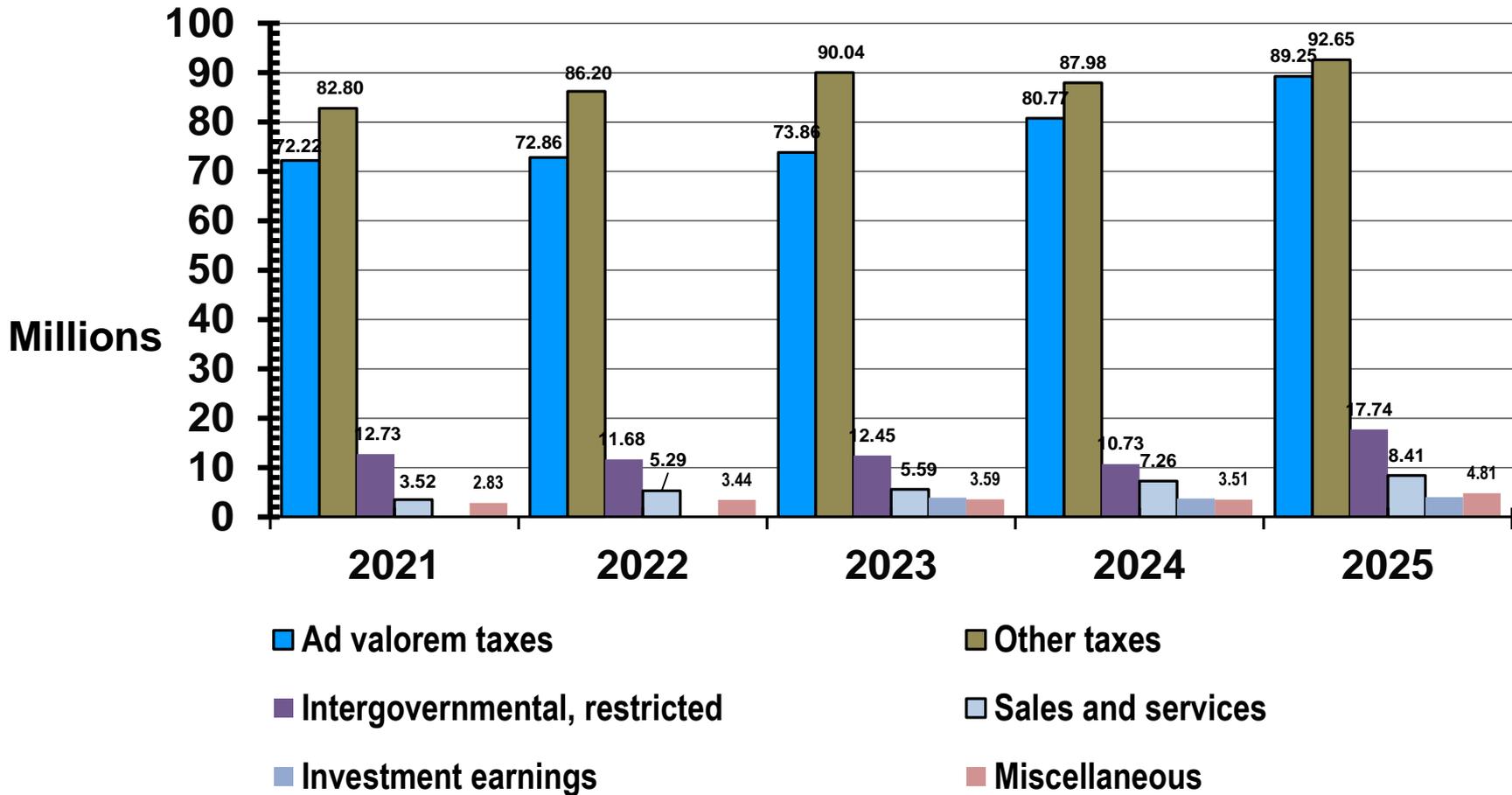
General Fund Revenues

For the Year Ended June 30, 2025



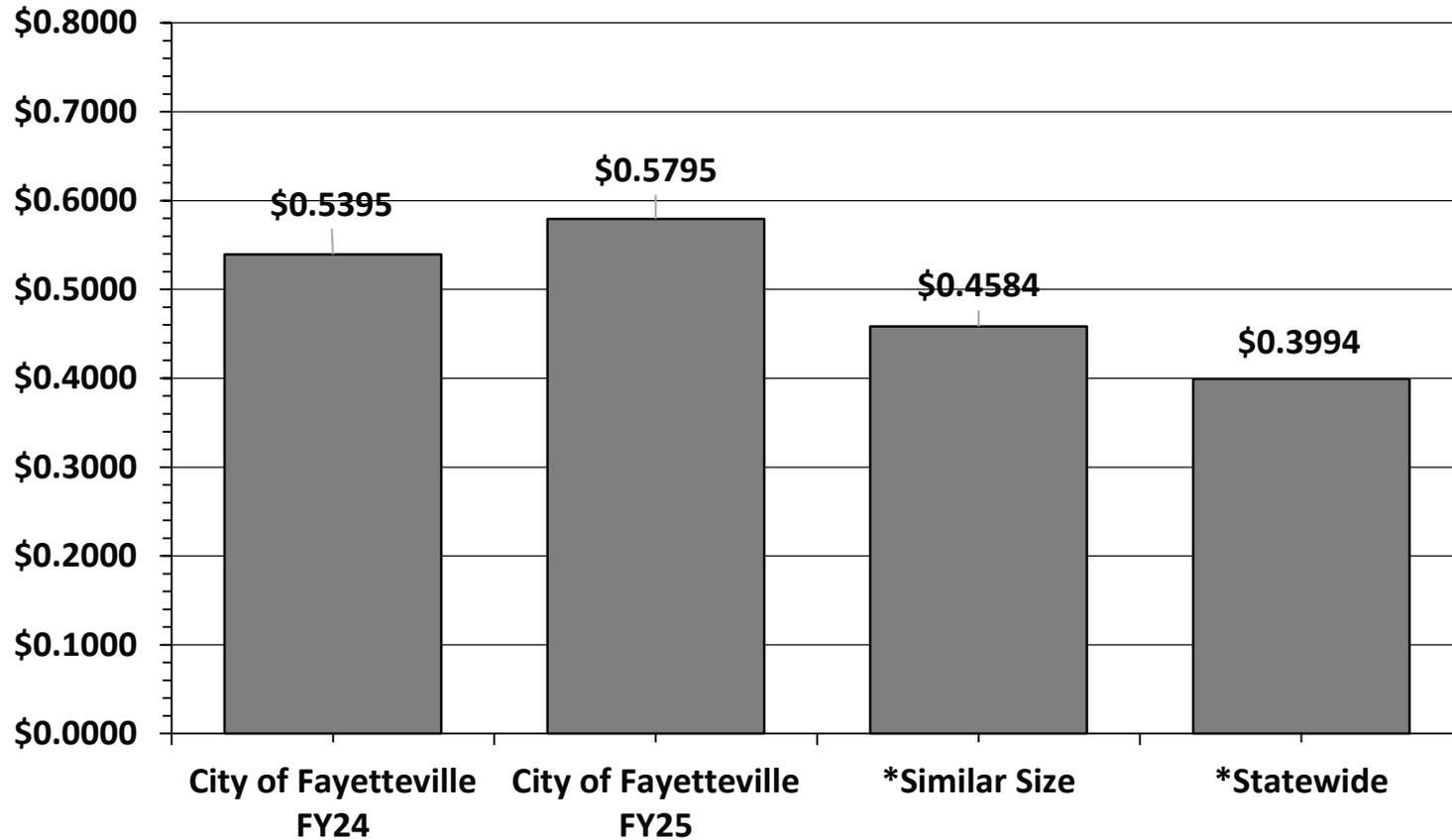
CITY OF FAYETTEVILLE, NC

General Fund Revenues by Source



CITY OF FAYETTEVILLE, NC

Tax Rate For the Year Ended June 30, 2025

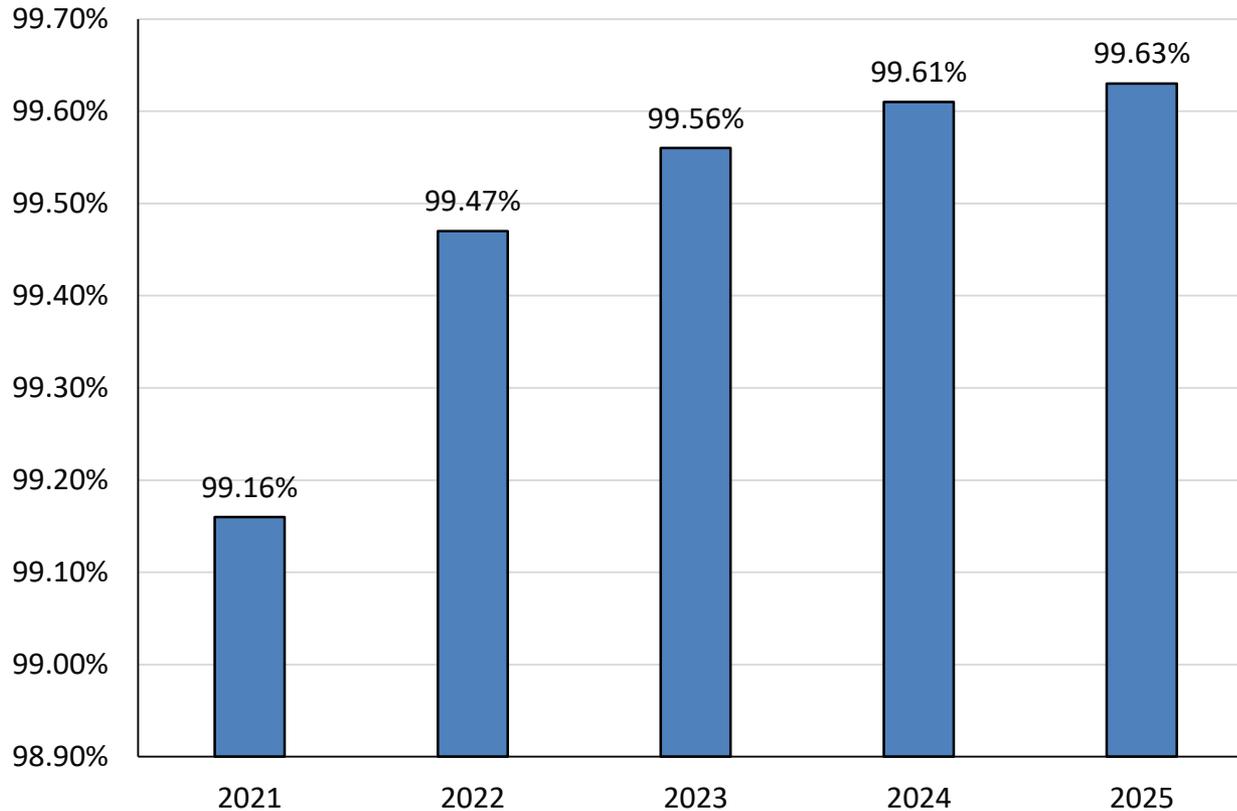


*For year ended June 30, 2025
(compared to units with electrical systems)

Per \$100 Valuation

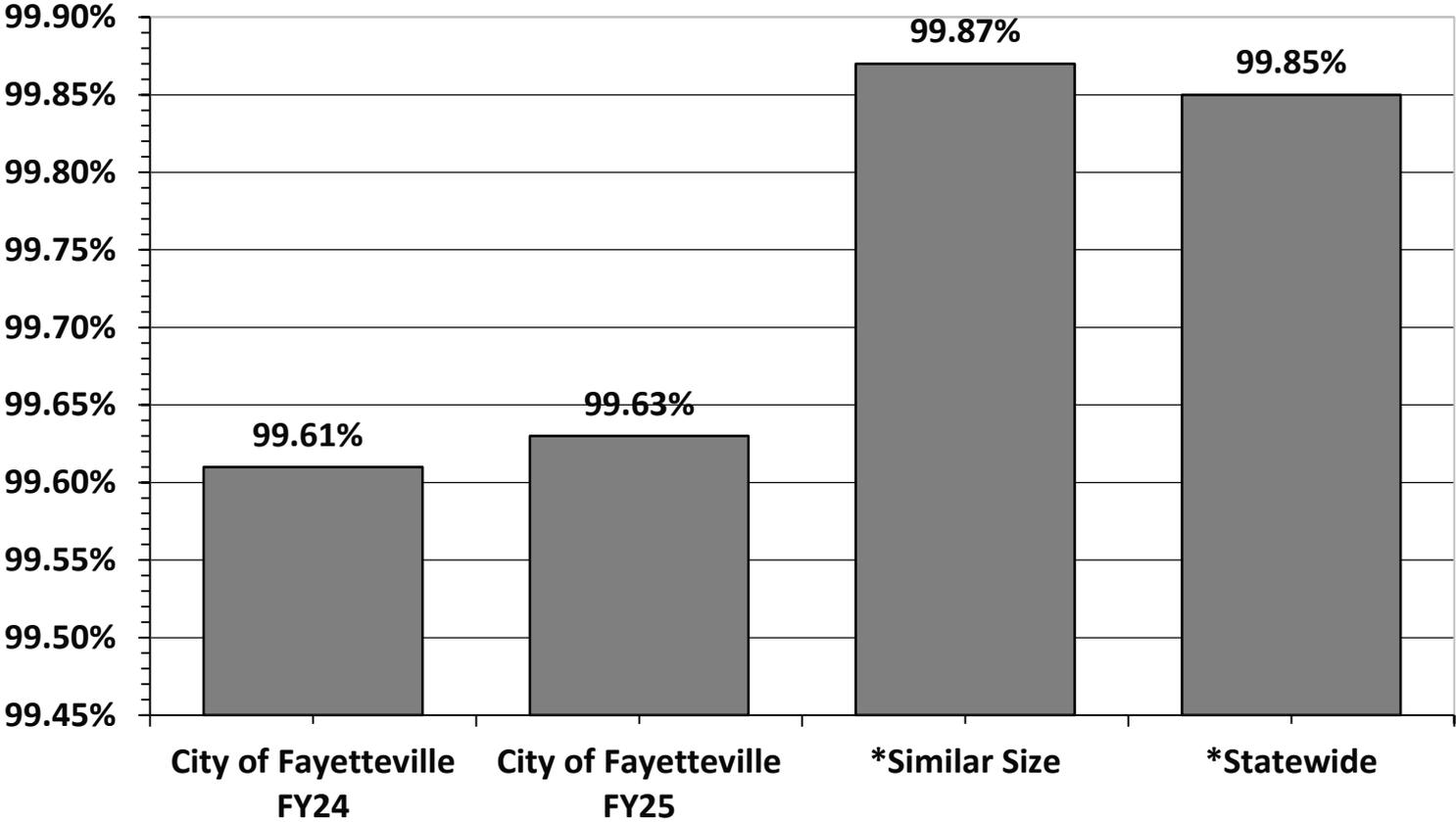
CITY OF FAYETTEVILLE, NC

Percent of Current Year's Property Tax Levy Collected



CITY OF FAYETTEVILLE, NC

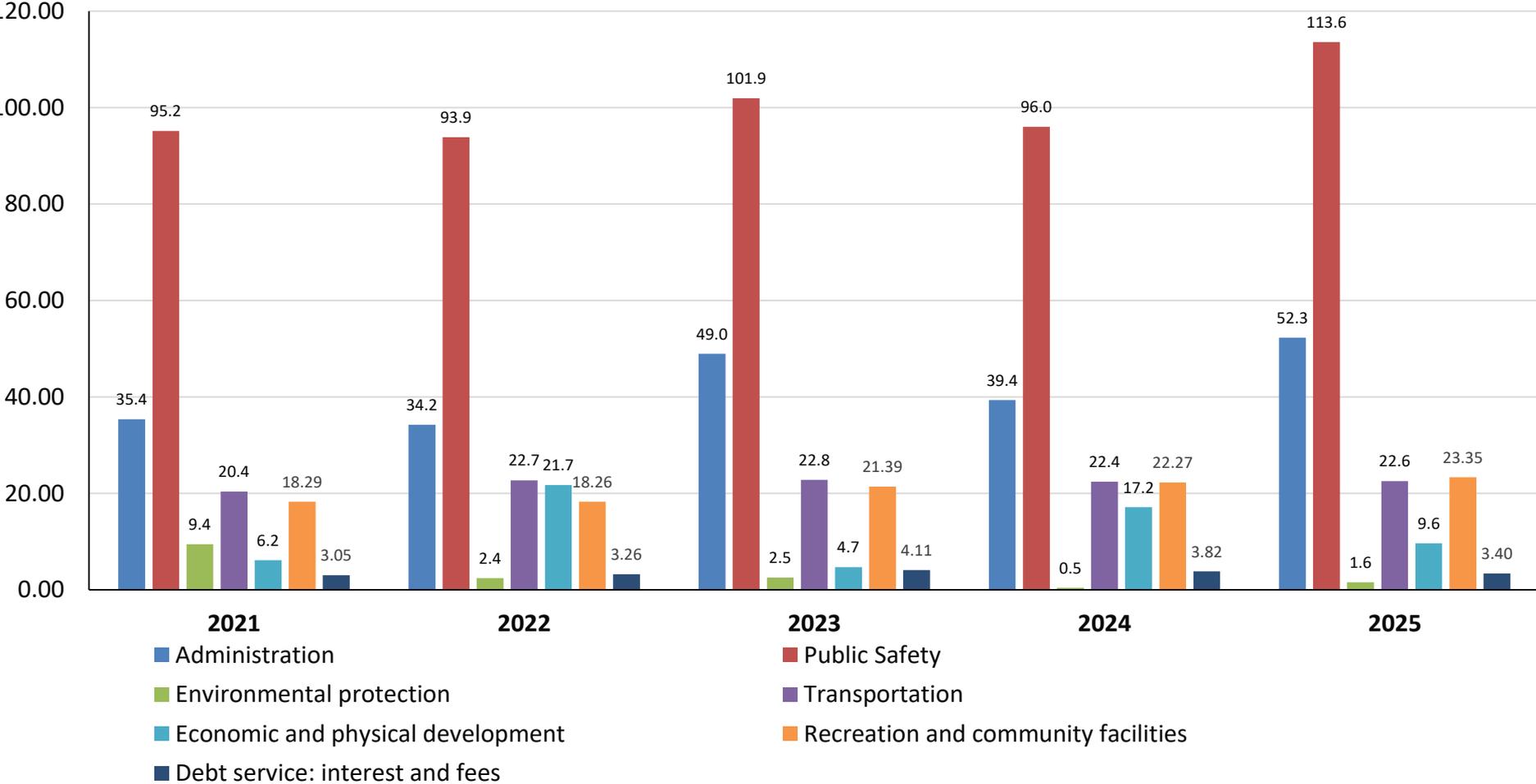
Percent of Current Year's Property Tax Levy Collected
For the Year Ended June 30, 2025



*For year ended June 30, 2021
(compared to units with electrical systems)

CITY OF FAYETTEVILLE, NC

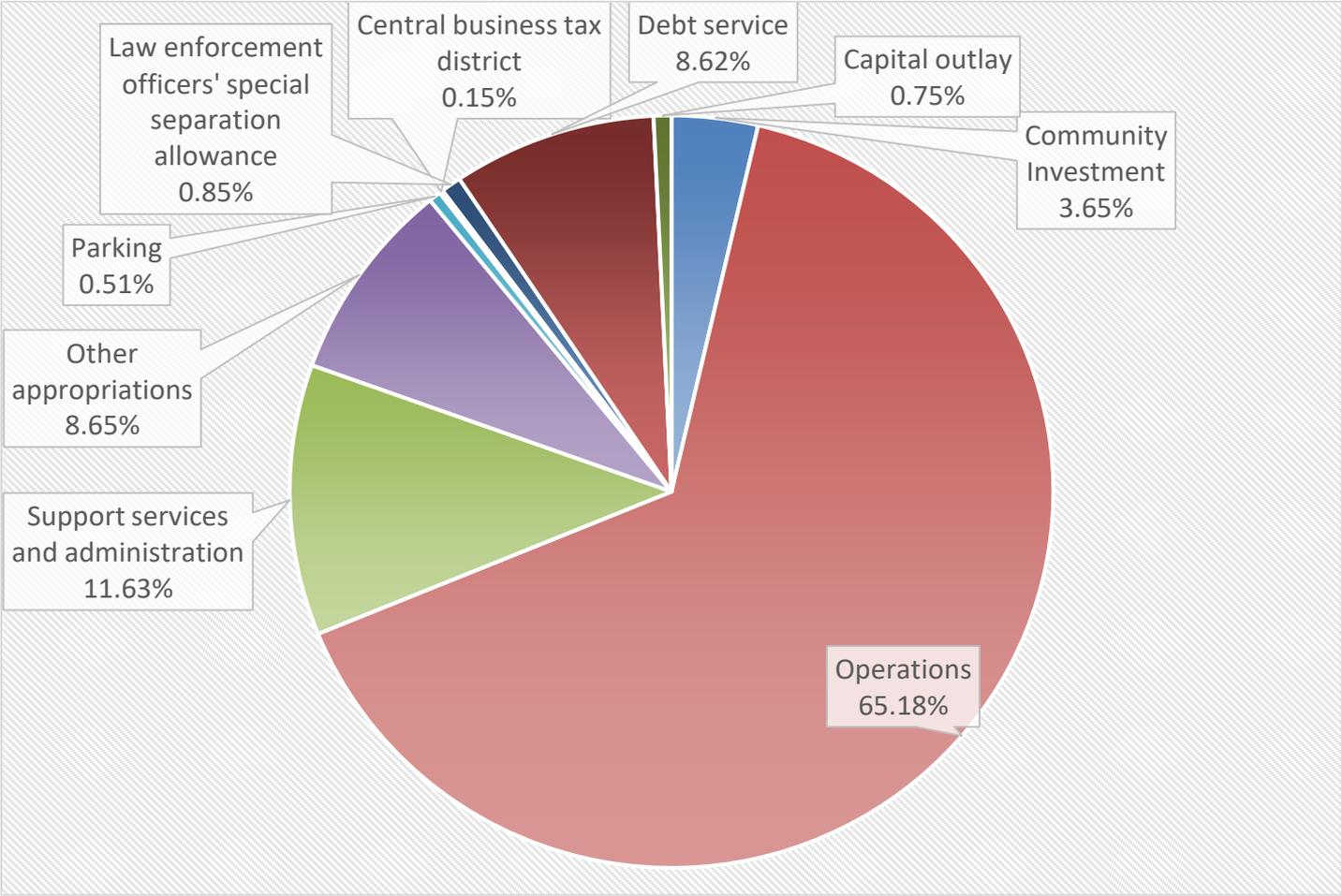
Expenditure Growth by Segment SOA (in millions)



CITY OF FAYETTEVILLE, NC

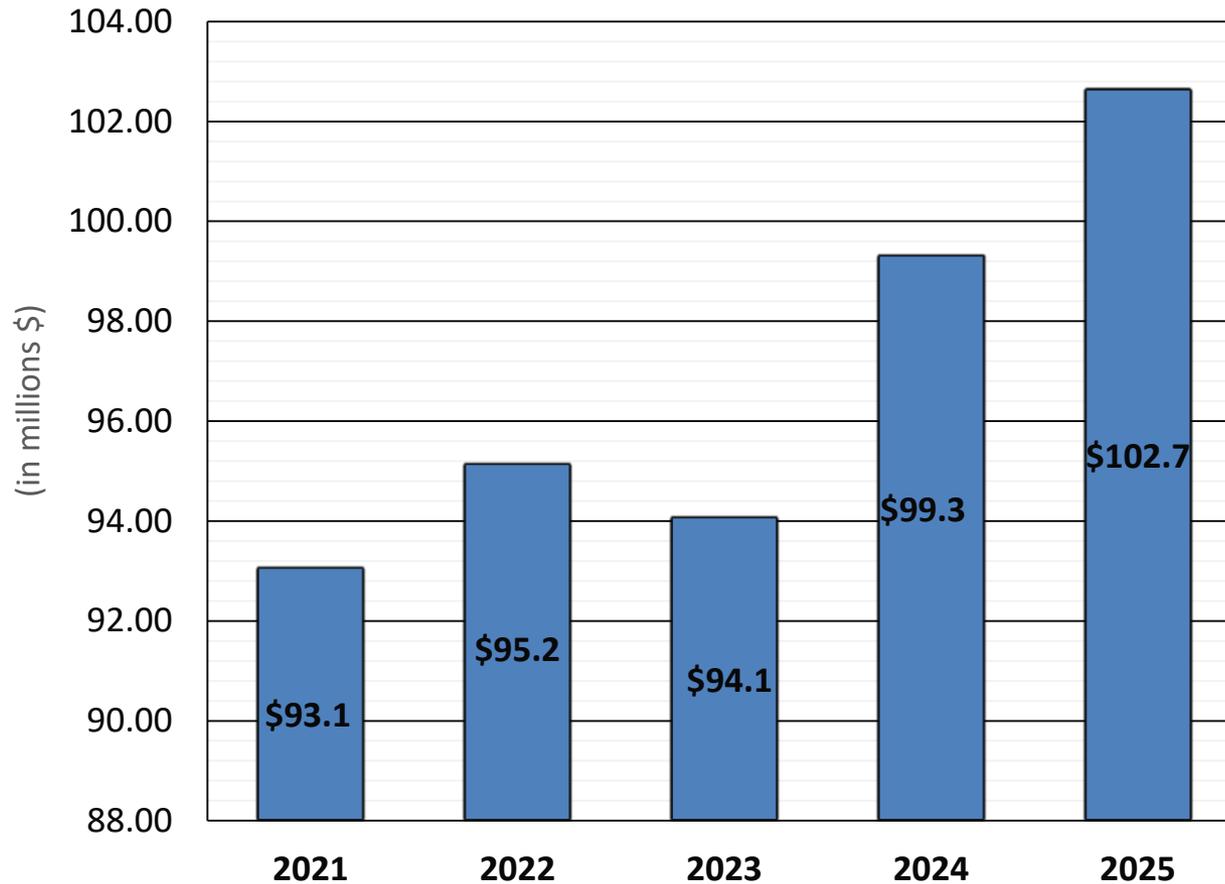
General Fund Expenditures

For the Year Ended June 30, 2025



CITY OF FAYETTEVILLE, NC

General Fund Balance (in millions)



CITY OF FAYETTEVILLE, NC

General Fund - Fund Balance Presentation



Non-spendable:

Inventories	118,215
Prepays	2,248,443
Loan	3,071,352
Leases	399,335

Restricted

Stabilization by State Statute	40,012,777
Central Business District	130,119
County Business	1,418,678
Donations	177,113

Committed

Law Enforcement Officers' Special Separation Allowance	13,494,341
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Assigned

Subsequent year's expenditures	7,853,418
Capital Projects	6,745,221

Unassigned

26,993,670

Total Fund Balance

102,662,682

Compliance Results for the Year Ended June 30, 2025

Reporting Requirements



- Government Auditing Standards
- Federal Single Audit Act / Uniform Guidance
- State Single Audit Implementation Act
- FAA Passenger Facility Charge Program

- **Significant 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.
- **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.

- **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.

Material Weakness in Internal Control – Year End Journal Entries

Finding 2025-001

- **Criteria:** *Accounting Principles Generally Accepted in the United States require journal entries to be classified appropriately*
- **Condition and context:** *The year-end sales tax revenue accrual was erroneously recorded to cash versus accounts receivable.*
- **Effect:** *Accounts receivable was understated and cash was overstated by \$16,957,368.*
- **Cause:** *Insufficient review of the entry to ensure coding to the appropriate accounts.*
- **Recommendation:** *We recommend the City adhere to their policy of journal entry review to ensure both amounts and account classifications are correct prior to approval and recording of journal entries.*

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



Material Weakness in Internal Control – Bank Reconciliations and System Setup Finding 2025-002

- **Criteria:** Bank reconciliations should be carried out timely, and with sufficient detail to ensure appropriate recording of all cash transactions within the operating funds of the City.
- **Condition and context:** The City maintains a separate treasury fund to account for all the operating cash within the City. The reconciliation process performed ensured the balances within that fund were reconciled to the bank balances, however there was not further reconciliation to ensure the amounts recorded in the treasury fund agreed to the amounts recorded within the operating funds of the City.
- **Effect:** The City had recorded \$21,508,618 in cash to the GASB 34 fund, the fund used to adjust from modified accrual GAAP to full accrual GAAP. \$10,647,751 in debt principal payments had erroneously been reversed out of the general fund cash into the GASB 34 fund, resulting in an opening fund balance error. \$10,290,937 of current year debt service payments from the general fund were automatically reversed out of the general fund into the GASB 34 fund. Reconciled cash in the treasury fund was \$2,779,313 greater than the amounts reported in the operating funds after the adjustments due to the debt service payments. The resulting adjusting entries resulted in additional payable accruals in the general fund, stormwater improvements fund, transit fund, airport fund, fleet maintenance fund, insurance fund, and the environmental services fund.
- **Cause:** The primary cause of the errors is improper setup of the Oracle financial software. Additionally, while the City did reconcile the bank to the treasury fund, additional procedures were not performed to complete the reconciliation from the treasury funds to the operating funds of the City.
- **Recommendation:** We recommend the City contact their Oracle provider and make the necessary adjustments to the financial system to ensure receivables, payables and cash are appropriately reflected in the financial system in accordance with GAAP. Additionally, we recommend the City reconcile the treasury fund reconciled cash to the operating funds reported cash on a monthly basis to ensure all transactions are appropriately reflected in the financial system.

Update on Prior Year Control Deficiencies



Material Weakness in Internal Control – Accounts Payable Cutoff

Finding 2024-001

Status: Corrected

Material Weakness in Internal Control – Recording a Loan Receivable

Finding 2024-002

Status: Corrected

Major Programs Tested



- Major Federal Programs tested:
 - Coronavirus State and Local Fiscal Recovery Funds— FAL #21.027
 - Housing Opportunities for Persons with AIDS (HOPWA) – FAL #14.241
 - Federal Transit Cluster – FAL# 20.507/20.526
 - BRIC: Building Resilient Infrastructure and Communities – FAL# 97.047
- Major State Programs tested:
 - Nonstate System Street Aid Allocation (Powell Bill)

Auditor's Required Communications: 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 and Government Auditing Standards issued by the Comptroller General of the United States have been described to you in our arrangement letter dated April 1, 2025. 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 1, 2025, 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 Communication: AU-C 260



Area	Comments
Accounting Policies and Practices	<p data-bbox="707 315 1779 464">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 data-bbox="707 508 1779 654">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.</p> <p data-bbox="707 698 1779 875">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.</p>

Auditor's Required Communications: AU-C 260



Area	Comments
Audit Adjustments	Audit adjustments, other than those that are clearly trivial, proposed by us and recorded by the City of Fayetteville are shown in the attached Summary of Recorded Audit Adjustments.
Uncorrected Misstatements	Uncorrected misstatements are summarized in the attached list of Uncorrected Misstatements. Uncorrected misstatements or matters underlying these uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if we have concluded that the uncorrected misstatements are immaterial to the financial statements under audit.
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 basic financial statements.

Auditor's Required Communications: AU-C 260



Area	Comments
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. We did encounter significant delays in performing audit procedures due to issues with year-end close out stemming from the Oracle system implementation as well as staff turnover. As a result, an additional significant risk of material misstatement was identified related to cash.
Significant Written Communications Between Management and Our Firm	Copies of significant written communications between our firm and the management of the City, including the representation letter provided to us by management, are attached as Appendix A.

Financial Performance Indicators



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

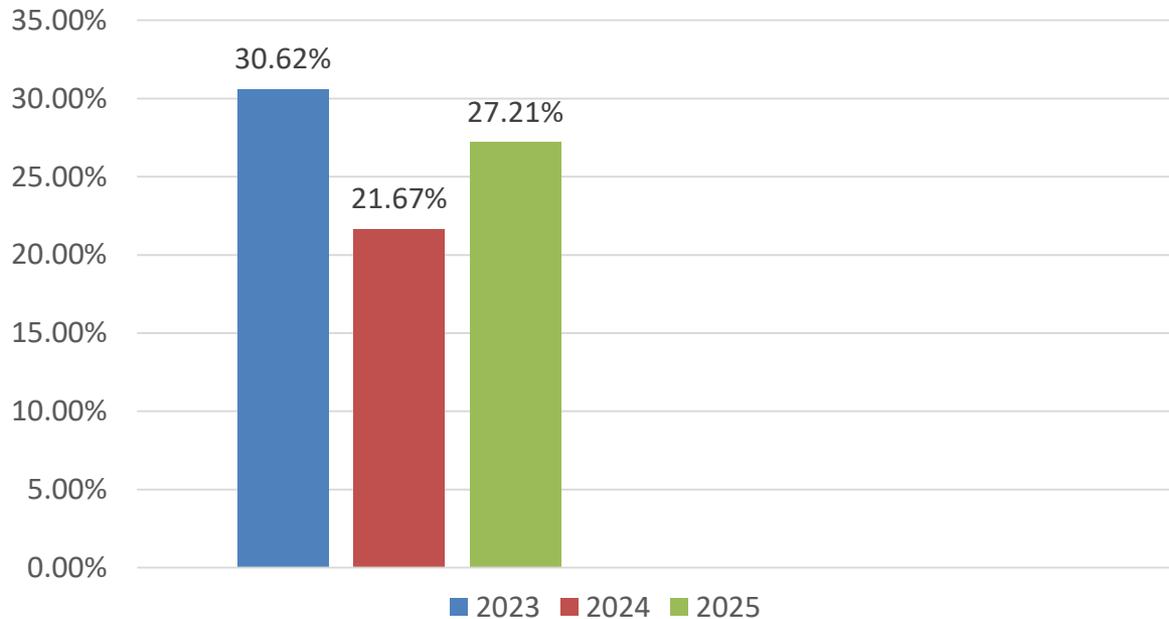
The City Council will be responsible for responding directly to the LGC within 60 days of the formal presentation by the auditor to the City Council for any items that are marked “red” in the next 9 slides.

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

Financial Performance Indicators of Concern



General Fund Fund Balance Available



Minimum Threshold	Unit Results
25% - Average of similar units is 46%	27.21%

Financial Performance Indicators of Concern (continued)



General Performance Indicators:	2025	Target	Unit Results
The 2025 Audit Report is expected to be submitted by February 12, 2026	Yes	February 12, 2026	Yes
The budgeted tax levy for the General Fund had more than 3% uncollected for the fiscal year audited – decreases are shown by a negative %	2%	Less than 3%	-1.17%
You indicated that you expect a decrease in property value for your next property revaluation. In your 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.	Increase	Any estimated decrease	Increase

Financial Performance Indicators of Concern (continued)



General Performance Indicators:	2025	Target	Unit Results
Does the entity have an effective pre-audit process to ensure that pervasive budgetary over-expenditures do not occur at the budget ordinance level?	Yes	No over-expenditures	Yes
The local government had a mandate placed on them by DEQ, a court order or some similar requirement (that has no realistic appeal path) that the financial effect will be greater than 3% of the WS Budget and is not yet budgeted.	No		No
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 a Response to Audit Findings, Recommendations and Fiscal Matters. 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.	Yes	Material weakness, significant deficiencies, and/or statutory violations	Yes

Financial Performance Indicators of Concern (continued)



General Performance Indicators:	2025	Target	Unit Results
The Unit had Statutory Violations listed in the Audit Report that should be addressed in the Unit Response Letter	No		No
The unit had problems with debt service payments being late and/or did not comply with the bond covenants?	No		No
The unit must address the material and/or significant findings or any other findings that the auditor reported to them.	2		2
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. If you are not a member of the Eastern Municipal Power Agency we would like to understand what you are funding with the transfers-out and do you plan to continue this practice.	No		No

Financial Performance Indicators of Concern (continued)



General Performance Indicators:	2025	Target	Unit Results
In addition to the any significant and material findings the Auditor can describe any 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.	0		No