



May 13, 2024



Certified Public Accountants & Consultants

Financial Results for the Year Ended June 30, 2023

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

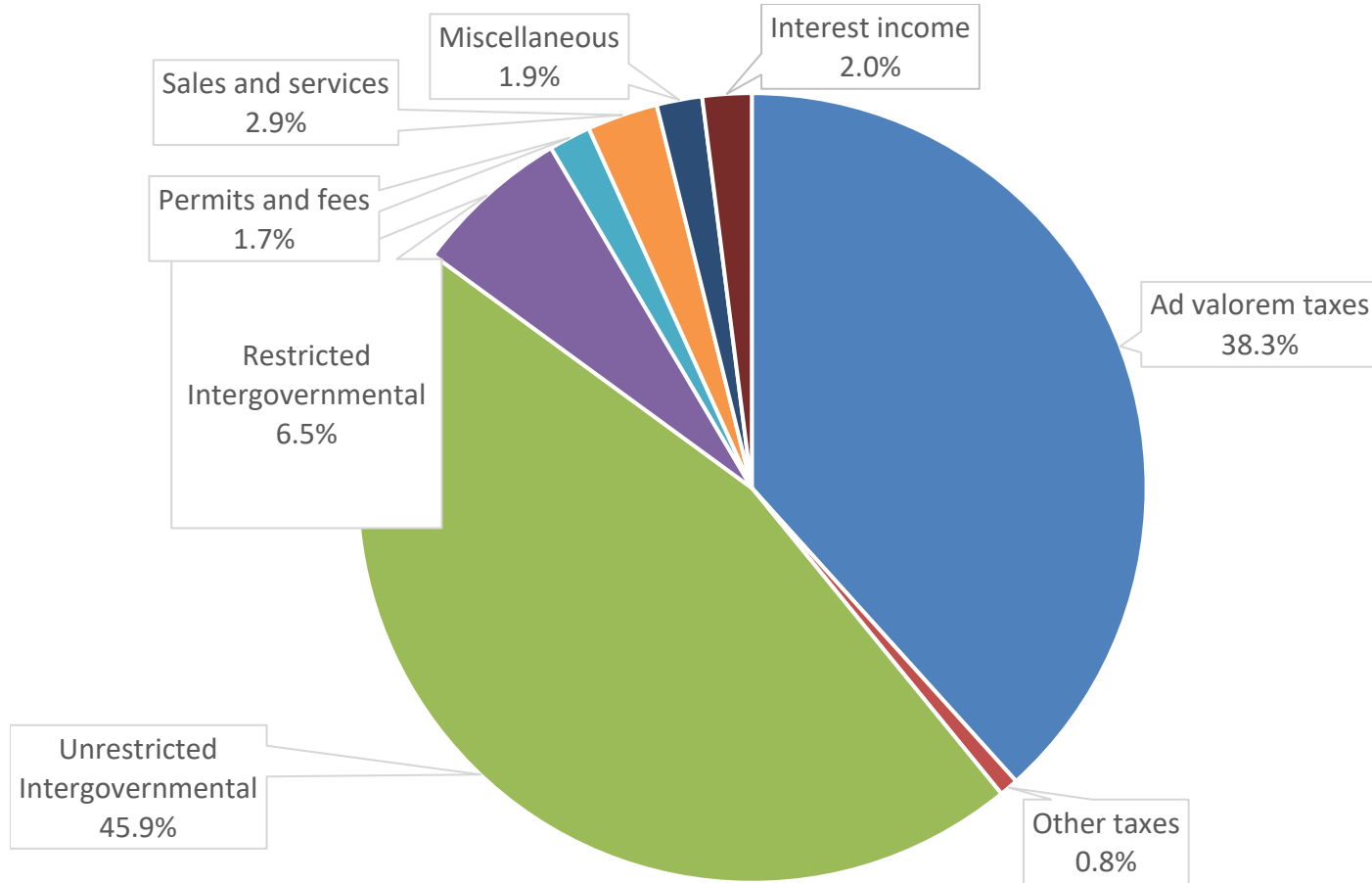


- Adverse
- Disclaim
- Qualified
- **Unmodified – “Clean” (Highest Level of Assurance)**

CITY OF FAYETTEVILLE, NC

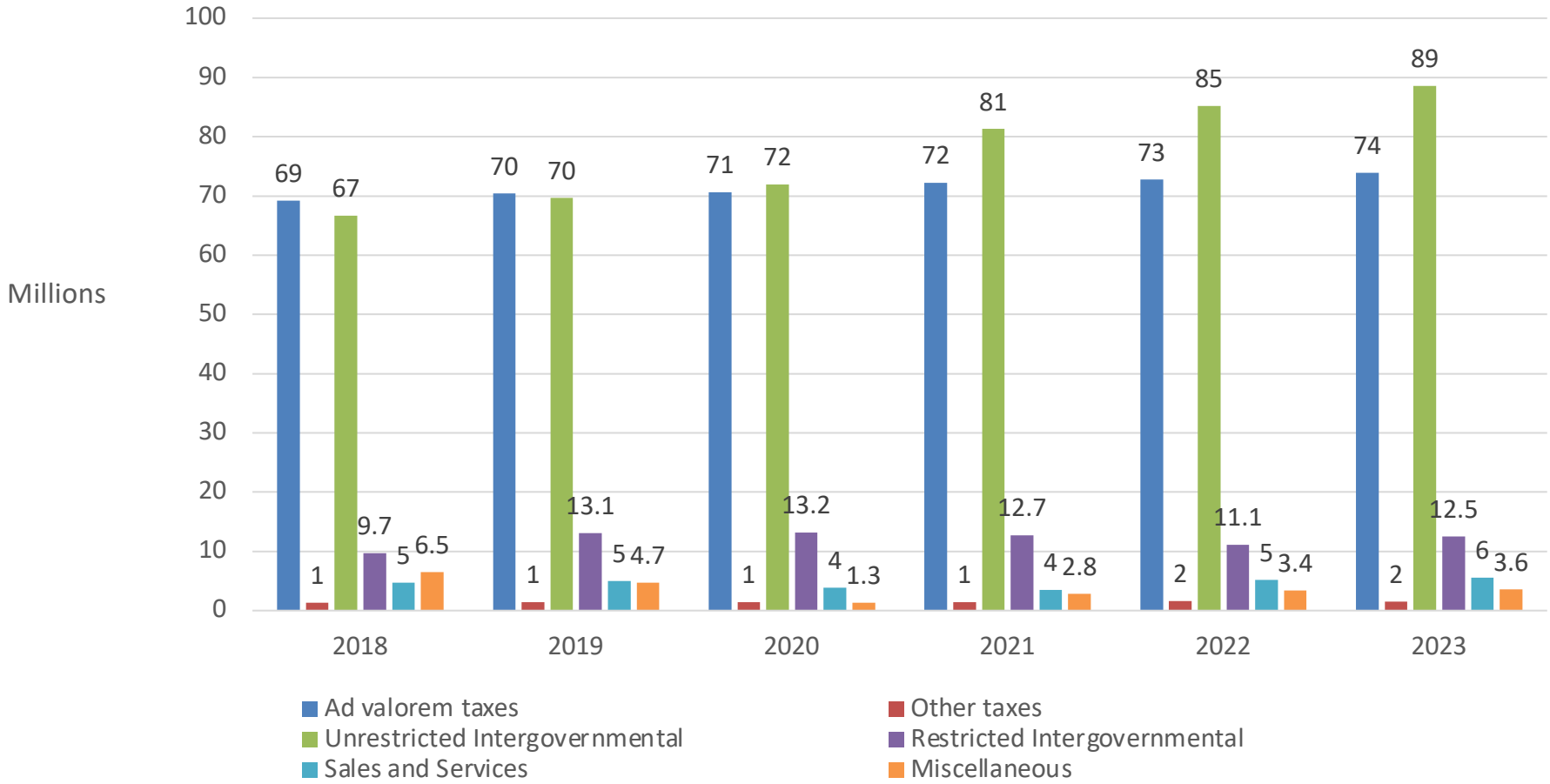
General Fund Revenues

For the Year Ended June 30, 2023



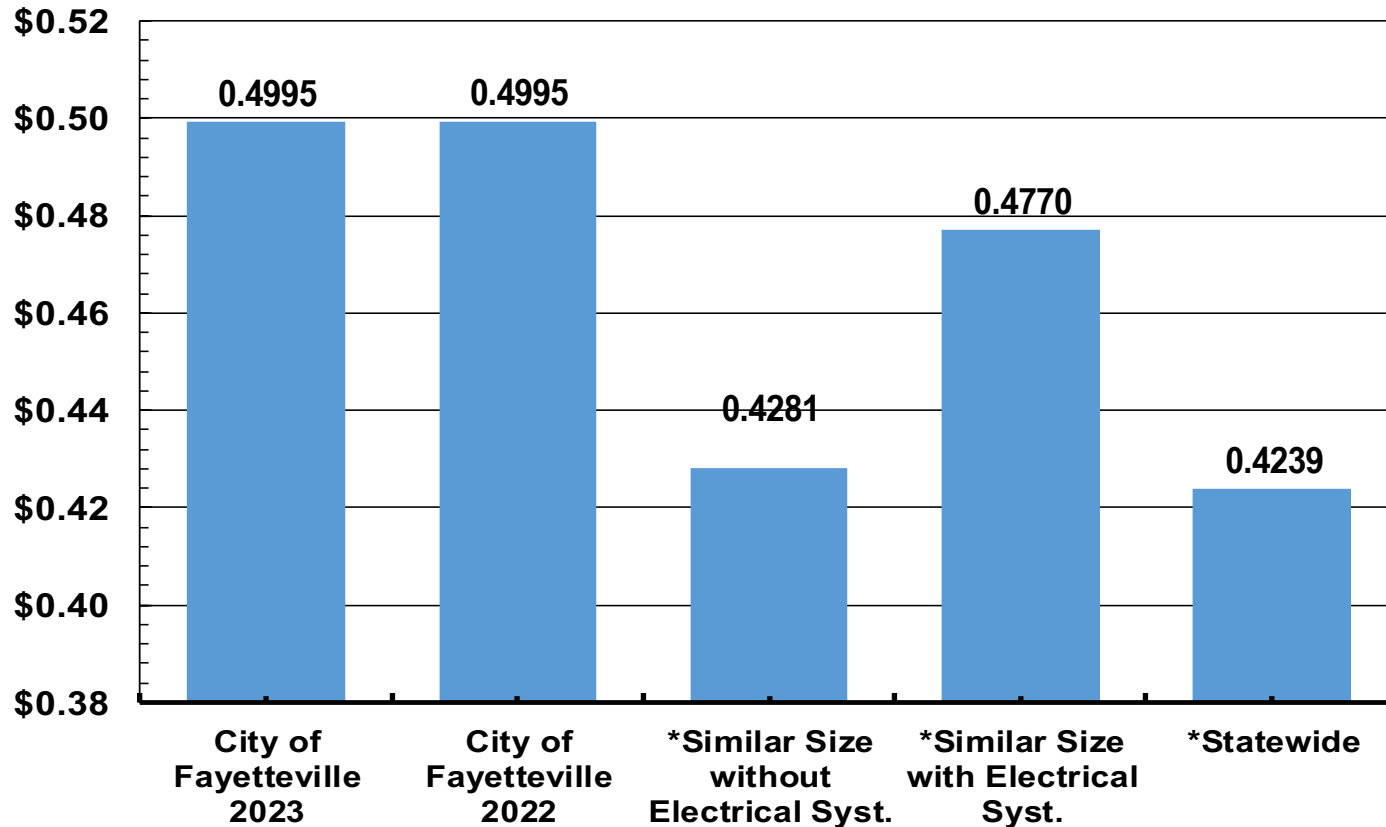
CITY OF FAYETTEVILLE, NC

General Fund Revenues by Source



CITY OF FAYETTEVILLE, NC

Tax Rate For the Year Ended June 30, 2023
(2022 Comparative Information Shown)

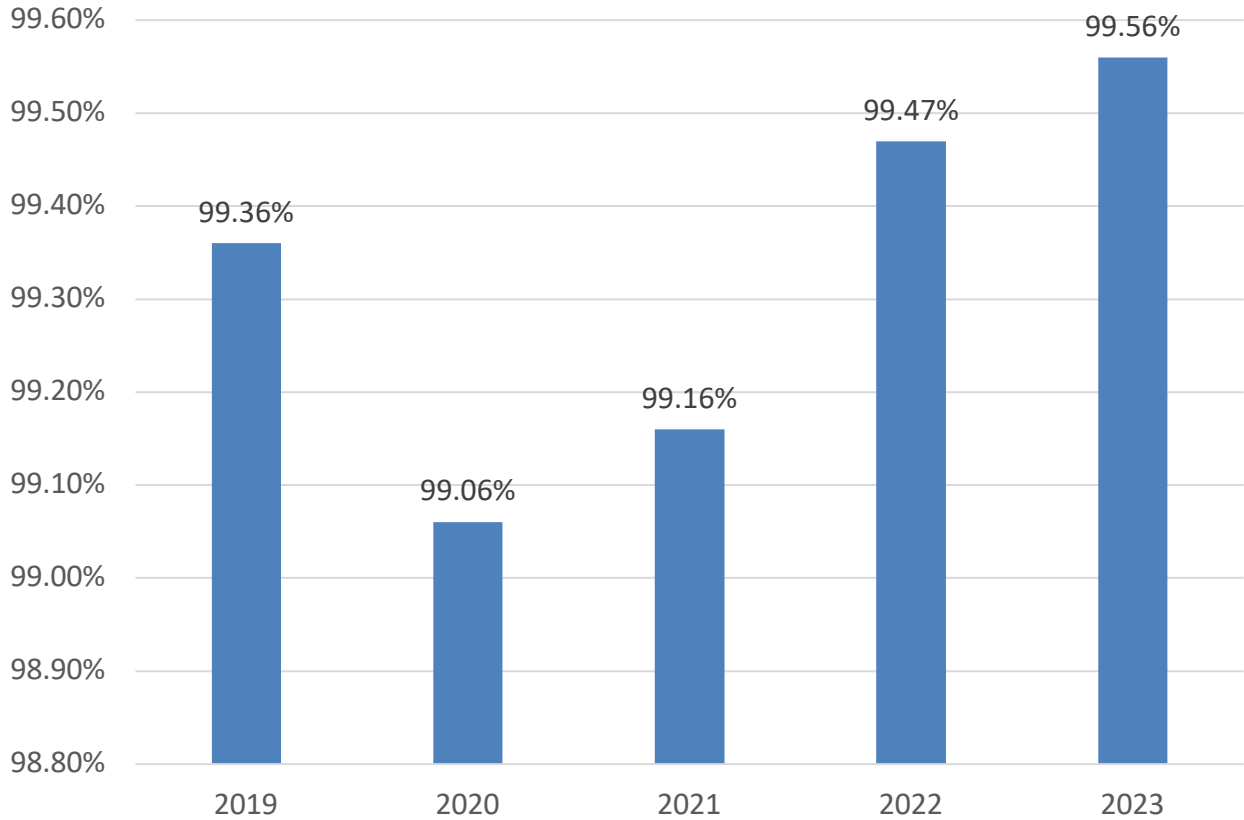


*For year ended June 30, 2022

Per \$100 Valuation

CITY OF FAYETTEVILLE, NC

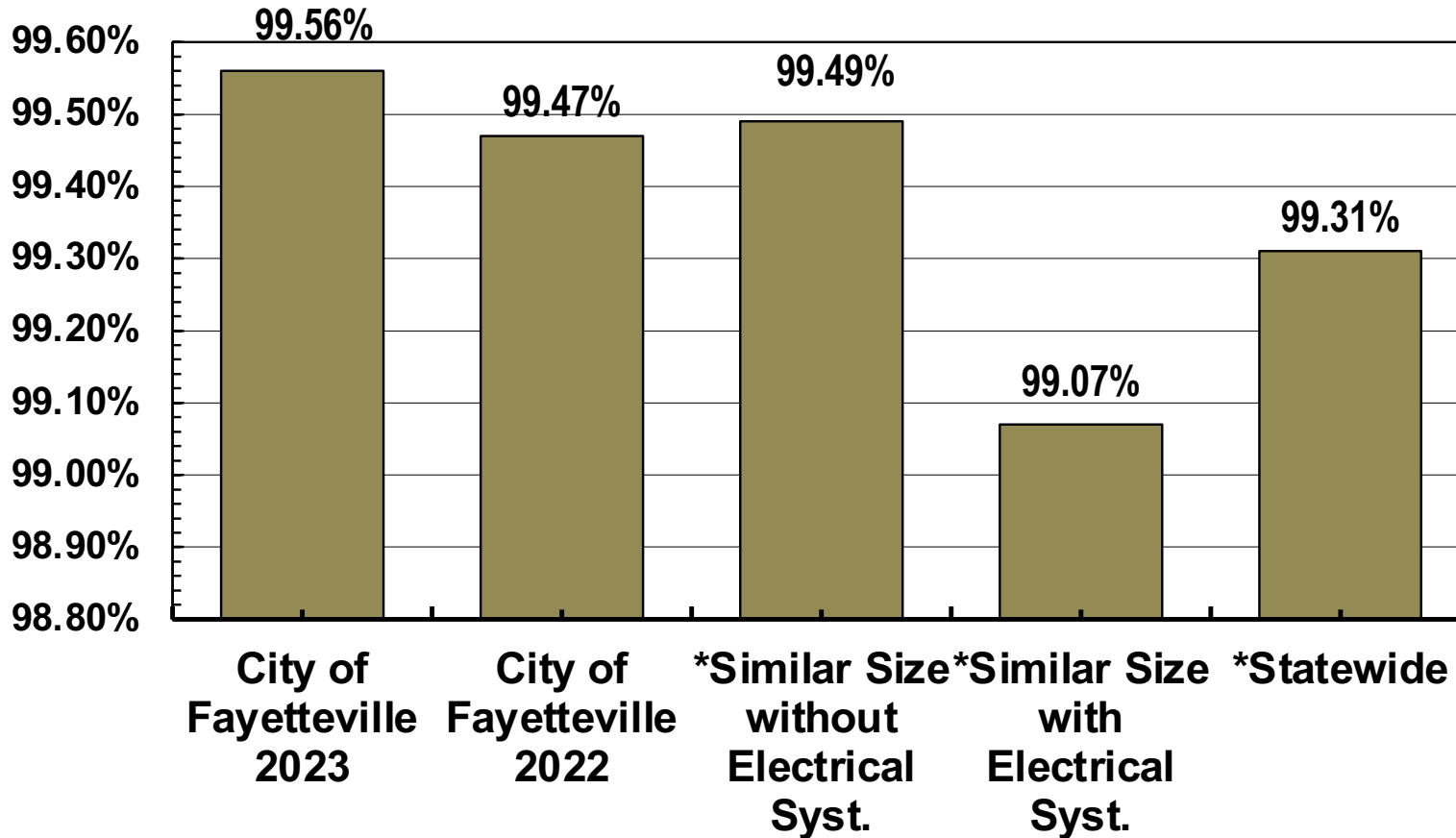
Percent of Current Year's Property Tax Levy Collected-All Taxes



CITY OF FAYETTEVILLE, NC

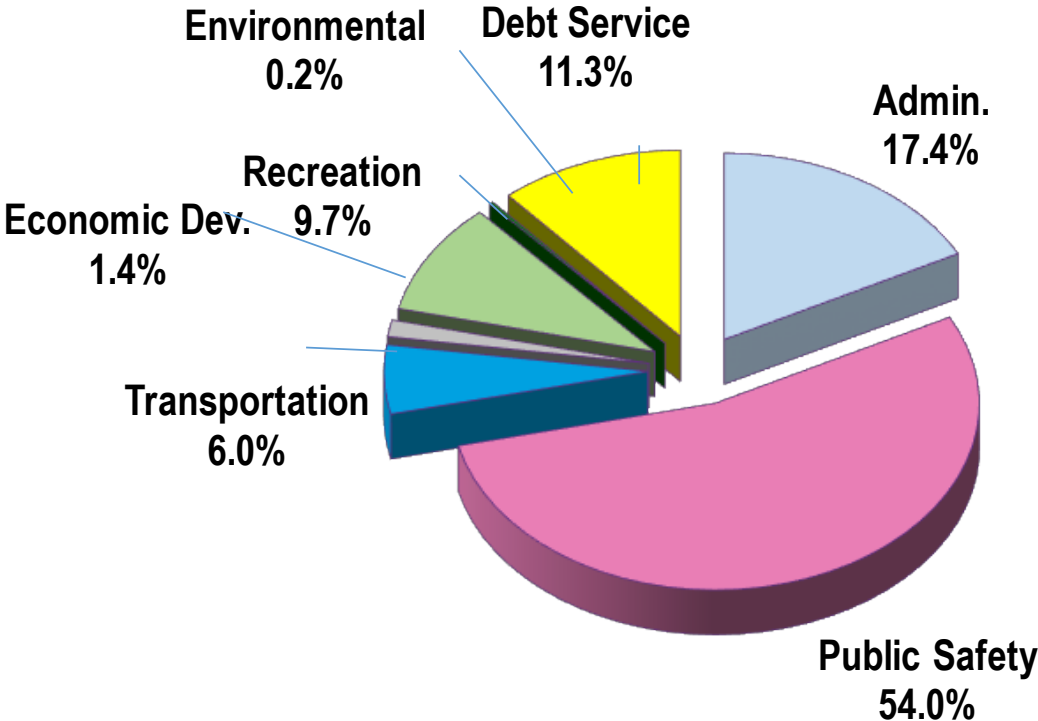


Percent of Current Year's Property Tax Levy Collected-All Taxes
For the Year Ended June 30, 2023 (2022 Comparative Information Shown)



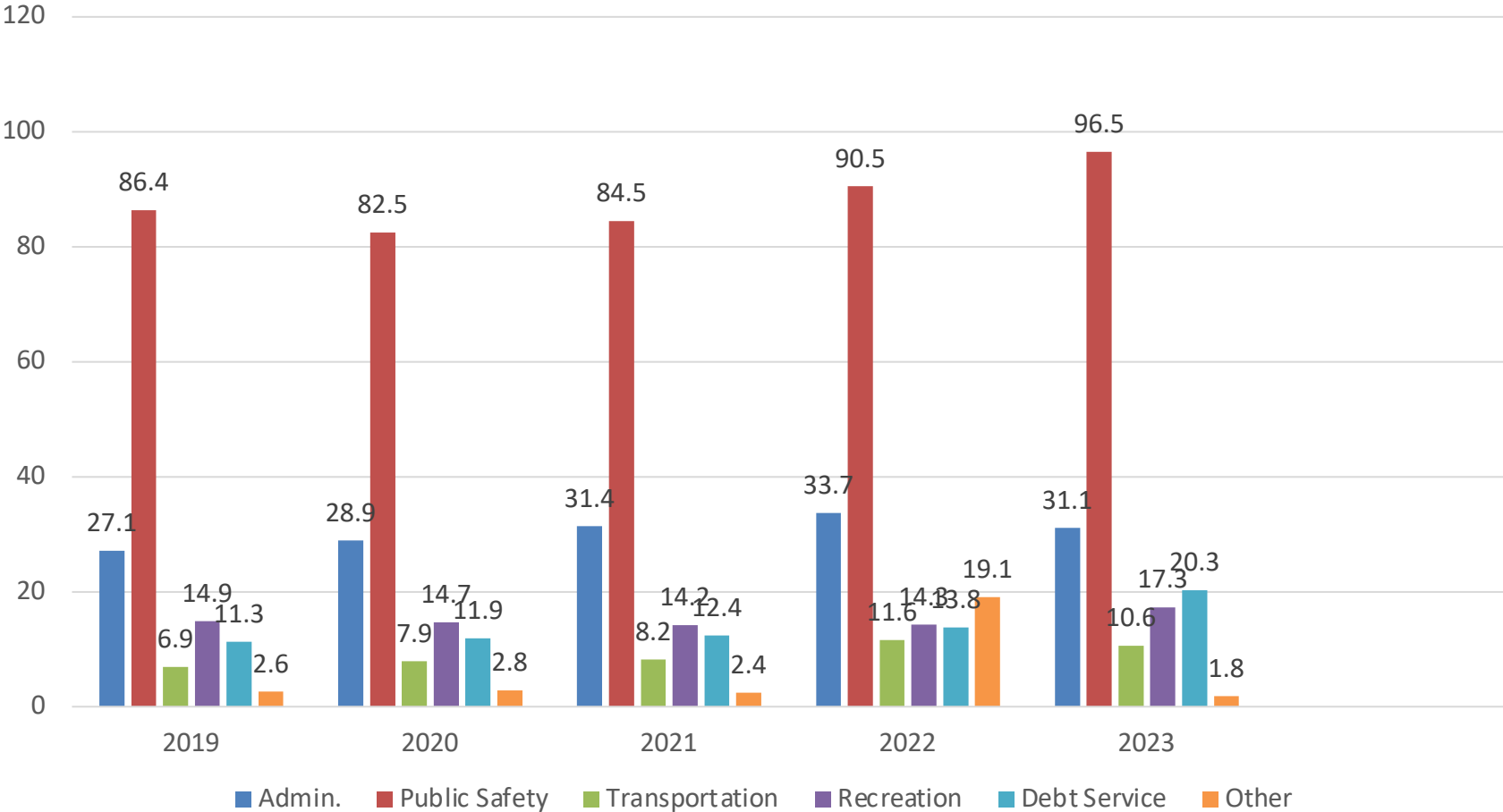
*For year ended June 30, 2022

CITY OF FAYETTEVILLE, NC
General Fund Expenditures
For the Year Ended June 30, 2023



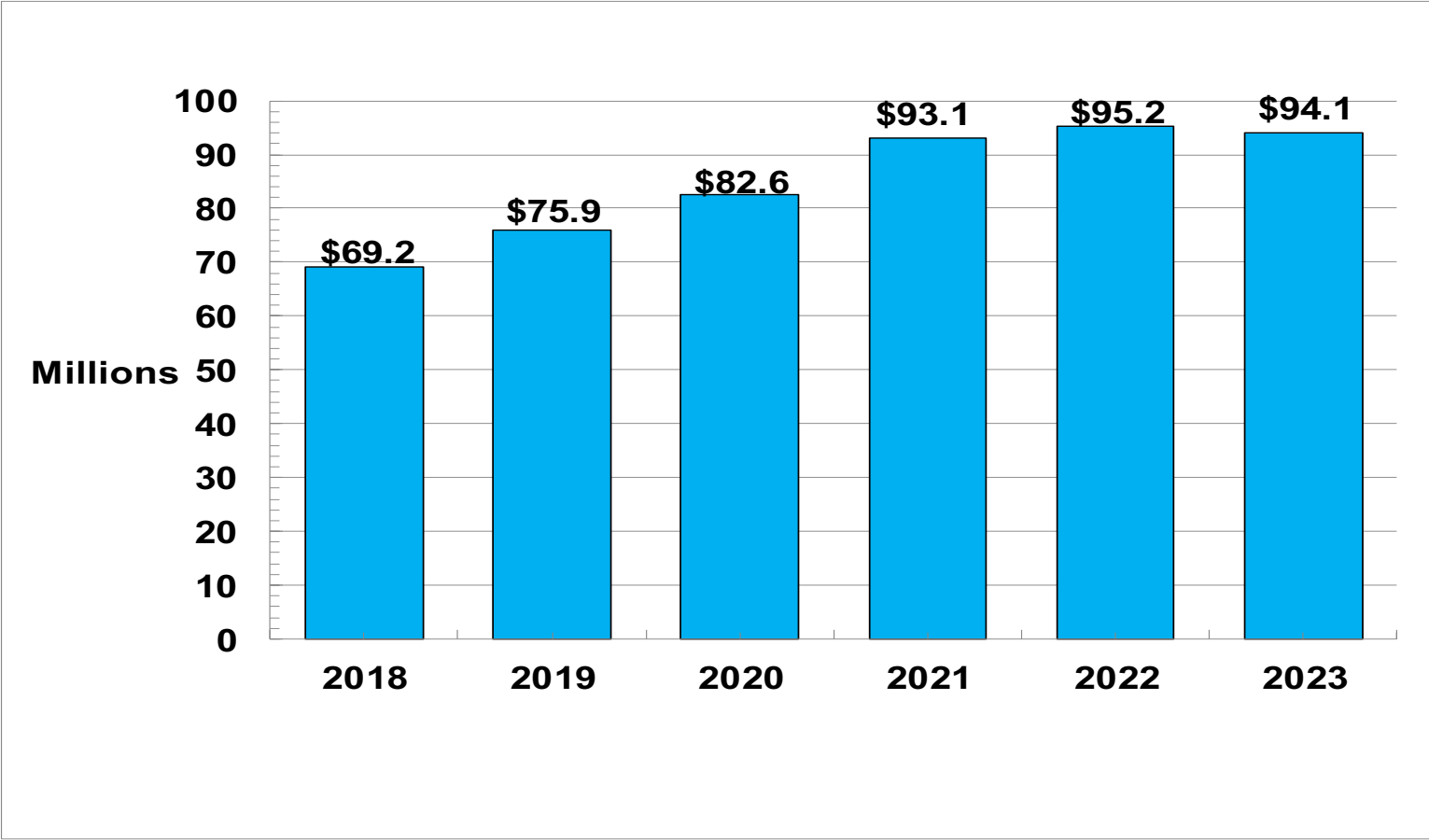
CITY OF FAYETTEVILLE, NC

Expenditure Growth by Segment (in millions)



CITY OF FAYETTEVILLE, NC

General Fund Balance



CITY OF FAYETTEVILLE, NC

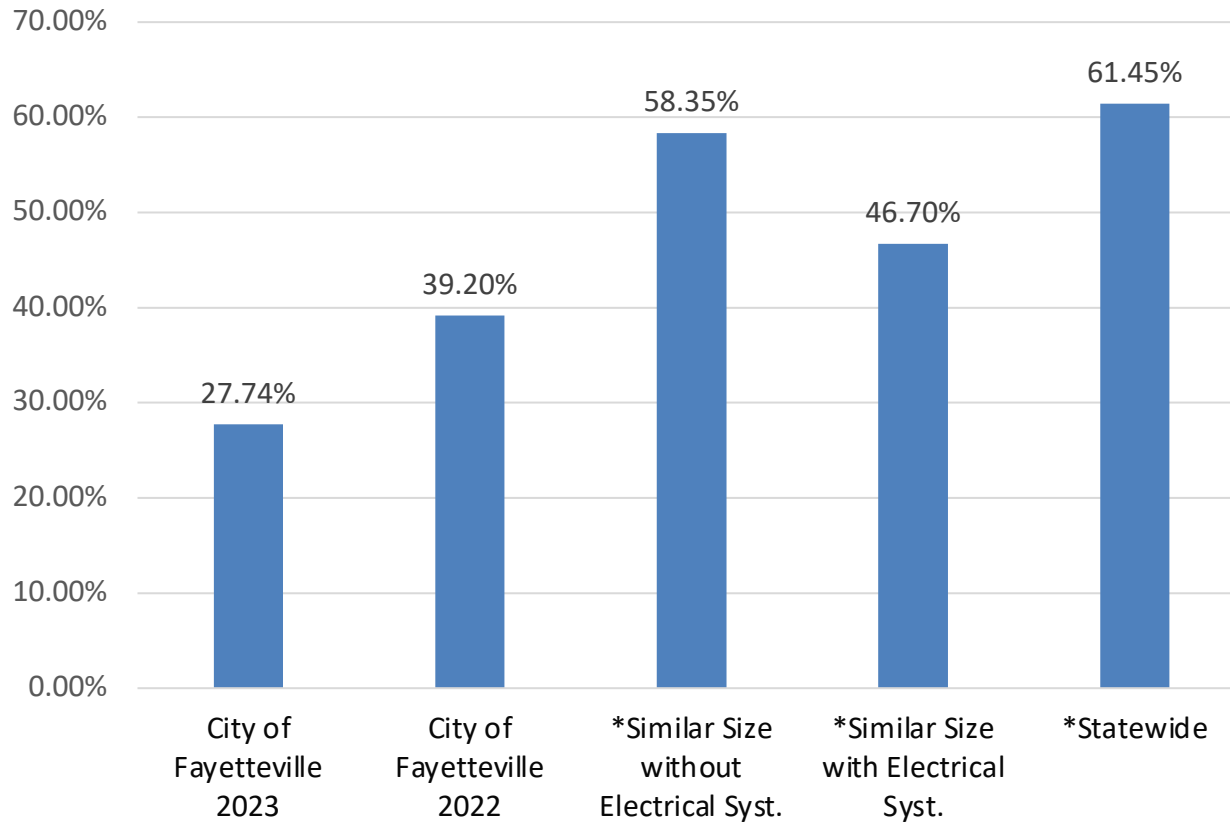
General Fund Balance Presentation



Total Fund Balance - General Fund	\$ 94,100,556
Less:	
Non-spendable	
Inventories	105,691
Prepays	2,491,166
Leases	236,811
Restricted	
Stabilization by State Statute	33,738,606
For downtown	119,454
For county recreation	2,838,957
Donations	49,441
Committed	
Law Enforcement Officer's Separation Allowance	10,340,293
Assigned	
Subsequent years expenditures	5,928,086
Specific purpose assignments	3,300,000
Capital funding plan	6,748,577
Unassigned	28,203,474
Working capital/fund balance policy	20,520,951
Remaining fund balance	\$ 7,682,523

CITY OF FAYETTEVILLE, NC

Fund Balance Available as a Percentage of General Fund Net Expenditures
For the Year Ended June 30, 2023 (2022
Comparative Information Shown)



*For year ended June 30, 2022

Fiscal Year 2023 Legal Debt Margin Calculation



Assessed Value	\$ 14,864,440,917
Debt Limit (8% of total assessed value)	1,173,155,273
Debt applicable to limit:	
Bonded debt	34,562,444
Limited obligation bonds	42,468,801
Lease and subscription obligations (Governmental and Business)	11,911,120
Installment agreements (Governmental and Business)	27,002,212
Subtotal	<u>115,944,577</u>
Authorized and unissued debt	<u>97,000,000</u>
Total Gross Debt	212,944,577
Less: Statutory deductions	
Bonds authorized but unissued	<u>(97,000,000)</u>
Total Debt Applicable to Limit	<u>115,944,577</u>
Legal Debt Margin	<u>\$ 1,057,210,697</u>

Analysis of Debt of NC Municipalities

As of June 30, 2023

(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	2,777,664	302,869	10.90%
Charlotte	12,428,255	1,544,952	12.43%
Concord	1,223,294	85,674	7.00%
Durham	3,220,046	223,155	6.93%
Fayetteville	1,168,495	146,643	12.55%
Greensboro	2,965,645	424,130	14.30%
High Point	1,057,730	106,440	10.06%
Raleigh	6,349,086	1,222,910	19.26%
Wilmington	1,747,319	175,760	10.06%
Winston-Salem	2,162,609	351,642	16.26%

Compliance Results for the Year Ended June 30, 2023

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 Watershed Protection Program – Federal Assistance Listing #10.923
 - Community Development Block Grants/Entitlement Grants – Federal Assistance Listing #14.218
 - Community Development Block Grants/State’s Program – Federal Assistance Listing #14.228
 - Disaster Grants – Public Assistance (Presidentially Declared Disasters) – Federal Assistance Listing #97.036
- Major State Programs tested:
 - State Capital and Infrastructure Fund Program
 - State Aid to Airports 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: 2023-001: Significant Compliance Violation and Significant Deficiency 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, 2023 financial statements were not submitted to the Local Government Commission until over 7 months past the original due date or 6 months past the extended due date.

Effect: The City of Fayetteville 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 of Fayetteville 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

Management's response: See Corrective Action Plan

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



Finding: 2023-002: Significant Deficiency in Internal Control Over Compliance - Timeliness Reporting- CDBG Quarterly Reports

Program Assistance Listing Number: 14.218 Community Development Block Grant/Entitlement Grants

Federal Agency: Department of Housing and Urban Development

Applicable Compliance Requirement: Reporting

Criteria: The May 2023 OMB Compliance Supplement requires the PR29-CDBG Cash on Hand Quarterly Report to be filed for all recipients of CDBG Entitlement Grants. Per the “Instructions for IDIS Cash on Hand Quarterly Report”, the reports are required to be submitted to the US Department of Housing and Urban Development within 30 days after the end of the reporting period.

Condition and context: The City submitted 3 out of 4 Cash on Hand reports between 8 and 90 days late.

Effect: Cash on Hand reports were not submitted timely.

Cause: Insufficient control environment, experienced staff turnover, and changes in accounting software.

Recommendation: We recommend the City of Fayetteville establish appropriate controls and hire appropriate staff to ensure timely submission of required reports.

Management’s response: See Corrective Action Plan

Management Letter/Internal Control Matters



- CDBG Compliance – Draw down availability
- PFC Compliance – Report Submission
- HOME Compliance – Draw down availability

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 August 24, 2023. 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 August 24, 2023 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 did not adopt any significant new accounting policies, or have there been any changes in existing significant accounting policies during the current period.</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	There were no audit adjustments made to the original trial balance presented to us to begin our audit.
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 management has engaged with Cherry Bekaert LLP to assist with year-end close out and training of City personnel.
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. 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 accounts payable completeness/cutoff.
Shared Responsibilities: AICPA Independence	The American Institute of Certified Public Accountants (AICPA) regularly emphasizes that auditor independence is a joint responsibility and is managed most effectively when management, audit committees, and audit firms work together in considering compliance with AICPA independence rules. For PBMares, LLP to fulfill its professional responsibility to maintain and monitor independence, management, the audit committee, and PBMares, LLP each play an important role.

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



Area

Comments

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 to the actual letter.

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



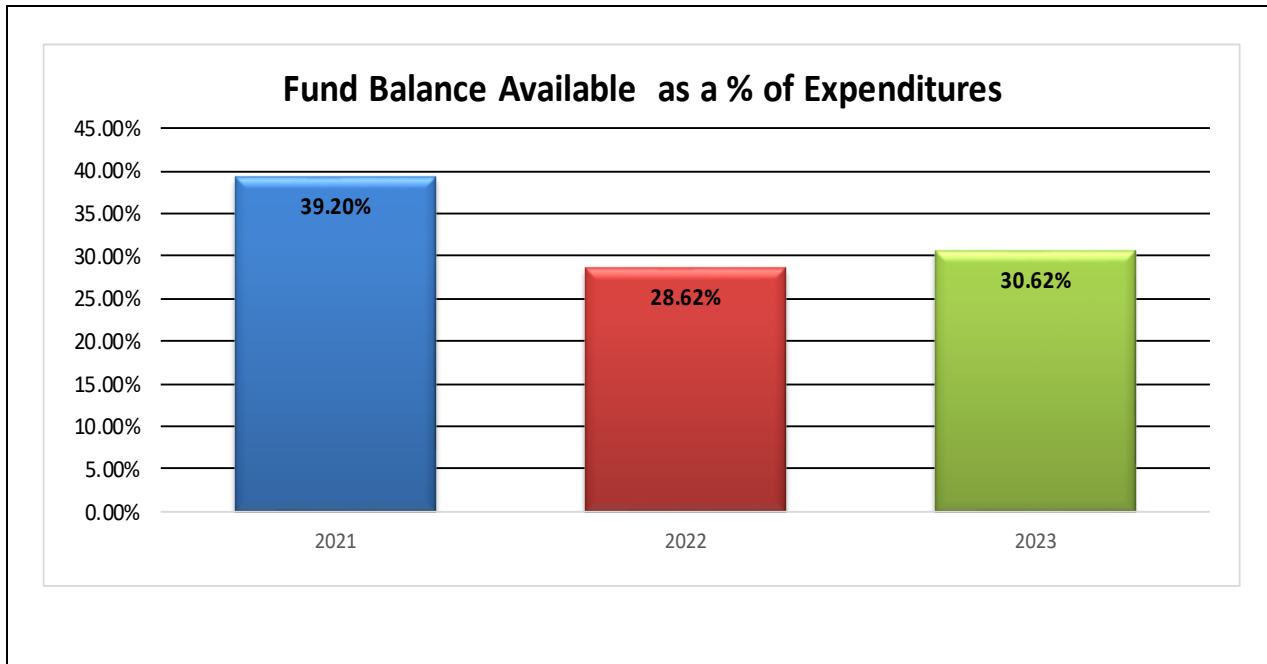
The next several slides are titled “Performance Indicators” as defined by the Local Government Commission.

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, 2023, the City had three 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 three 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



Minimum Threshold	Unit Results
25% - Average of similar units is 46%	30.62%

Performance Indicators (continued)



General Fund	Minimum Threshold	Unit Results
<p>There was appropriated fund balance for the General Fund in the 2023 budget AND your change in fund balance was negative. Please state if fund balance was used for operations or capital purposes.</p>	<p>Positive Change in Fund Balance</p>	<p>Operations</p>
<p>The General Fund had total fund balance less than zero - Fund Deficit</p>	<p>Positive Fund Balance</p>	<p>\$94,100,536</p>

Performance Indicators (continued)



General Performance Indicators:	2023	Target	Unit Results
The 2023 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.	2.09%	Less than 3%	2.09%

Performance Indicators (continued)



General Performance Indicators:	2023	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:	2023	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:	2023	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