

## Information Item

**Date:** May 13, 2025

**To:** Mayor, Mayor Pro Tempore, and Members of the City Council

**From:** Kelly Latham, Chief Financial Officer  
Ben Rowe, Assistant City Manager

**Subject:**

Information on the Financial Statement Audit, Single Audit, and the Annual Comprehensive Financial Report (ACFR)

**Strategic Focus Area:** Service Excellence

**Strategic Objective:** Maintain City's Financial Strength

**Strategic Plan Action Item:** No

**Key Work Item:** No



The FY 2024 annual financial statement audit and single audit for the City of Winston-Salem was completed on May 1, 2025.

The Annual Comprehensive Financial Report (ACFR) is provided electronically (Exhibit A). The ACFR includes the auditor opinions as well as the financial statements. The electronic copy will be posted on the City's website; hard copies can be provided upon request. The City received the Government Finance Officers' Association (GFOA) award for excellence in financial reporting for the fiscal year 2023 ACFR, and staff believe the fiscal year 2024 report meets the standards for the award as well.

The City's external auditors, Cherry Bekaert LLP, issued an unmodified or "clean" opinion for the fiscal year ended June 30, 2024. The auditor is required to present audit information to the City Council annually. Dan Gougherty, Audit Director for Cherry Bekaert, will present this information, which is also attached (Audit Executive Summary). Although the City received an unmodified opinion, the auditors noted a few items that require further explanation as detailed below and as described in the Audit Executive Summary.

- Based on interpretation of past accounting guidance, the City incorrectly recorded an accounts receivable and a revenue in the Transit Fund for grants that should not have been recorded because the grant agreement had not been formally executed as of June 30 (even though the federal budget appropriation had occurred). This is a change in accounting as the City has been handling this in the same manner for several years; however, a clarification to the guidance recently occurred. In addition, the time to execute agreements with the Federal Transit Administration has increased, meaning that grants that were once approved by June 30<sup>th</sup> each year are no longer being approved that quickly.

It is important to note that this does not impact cash and is only a timing difference for accounts receivable and revenues. The grants funds have since been received by the City.

In addition, in the Transit Fund, we expensed non-capitalizable costs that had been previously set up as a capital asset in prior years (in construction in progress) when several years of projects were closed at one time during FY24. An example of non-capitalizable costs includes furniture, equipment, and other small value items that do not increase the overall useful life of the asset. Due to the dollar value of this transaction, it is considered material to the financial statements and should have been expensed in prior years and not when the projects were closed. These issues have been corrected for FY24 and shown as an adjustment to FY23. This does not impact cash and is an adjustment to assets and expenses.

The amounts related to these two items are large enough that the auditors are required to note this as a weakness in internal control. Staff will improve our documentation and review changes to the City's processes with the accounting and reporting team so that this does not occur in the future.

- The City's FY 2024 audit also included a budget violation as expenditures in the Public Assembly Facilities Management Fund exceeded appropriations. It is important to note that this was not the result of a payment to a vendor that exceeded budget but was the result of an accounting and reporting change. Historically, the City reported the activity for the Benton Convention Center as a net expense based upon the payments made to the third-party management company (revenues collected by the third-party management company were not reported separately but were netted with expenses to report net expenses). We determined after June 30, 2024, that the historical reporting was incorrect and instead the activity should be reported individually as gross revenues and gross expenses. The change to report the gross expenditures resulted in expenses exceeding appropriations as reported, but the total paid to the vendor was within the budget. This issue does not indicate a systemic problem with the City's pre-audit process, systems, or overall budgetary control.

Under the Local Government Commission's (LGC) new processes, the majority of City Council must submit a letter to the State that explains any issues that fall outside of their financial performance guidelines. The issues that must be addressed via letter to the LGC are as follows: late filing of the City's audit due to staffing and the cyber event, the material weakness explained above related to the two accounting issues for the Transit Fund, and the over budget in the Public Assembly Facilities Management Fund. This letter is attached as Exhibit B.

The below are additional items that must be reviewed by the City's auditors but are considered immaterial and do not have to be addressed with the LGC.

- The accounting guidance for the Opioid Settlement Funds was not clear on June 30, 2023. In FY23, the City did not record a receivable and revenue for these funds based on our understanding of the guidance. We received clarification to the guidance in FY24 that staff must record a receivable and revenue for these funds at

the government-wide level. This was corrected in FY24. This clarification to the guidance has impacted many units in the State.

- The City should have recorded additional funds due from the State for several transportation grants as a receivable on June 30, 2024. This is the result of a miscommunication between finance and the departments responsible for requesting reimbursements on these projects. Staff will work to improve this process in the future.
- The Water and Sewer Fund had non-capital expenditures that were initially capitalized and then written to expense when the capital projects were closed in FY24. Because these amounts are immaterial to the Water and Sewer Fund, these expenses were adjusted in FY24, even though they were related to prior years.
- The Solid Waste Fund had a small amount of revenue that was recorded in FY25 that was related to FY24. Because this was immaterial, we did not adjust this in FY24.
- In the Economic Development and Housing Fund, a payment to escrow for the Flats at Peters Creek was incorrectly recorded as an expense and the associated grant revenue was recorded. Because the funds were still in escrow on June 30, 2024, this should have been recorded as an asset (prepaid expense) and a liability (unearned revenue), respectively. This will be corrected in FY25.