



City of Winston Salem, North Carolina

Audit Executive Summary

May 13, 2025



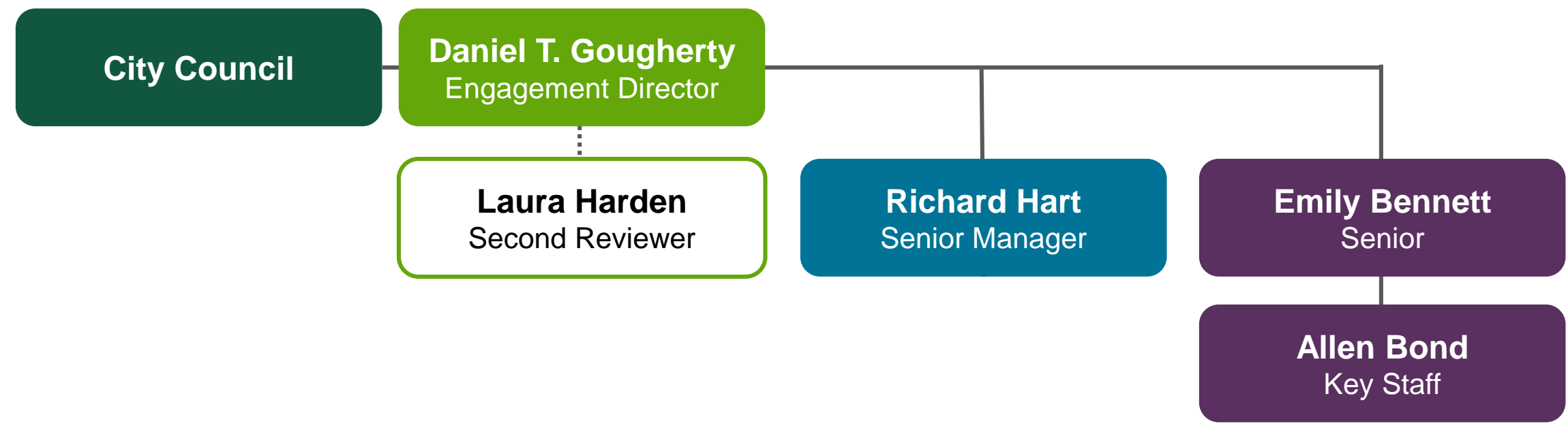
Agenda

- ▶ Client Service Team
- ▶ Results of the Audit
- ▶ Significant Audit Matters
- ▶ Internal Control Communication
- ▶ Corrected and Uncorrected Misstatements
- ▶ Qualitative Aspects of Accounting Practices
- ▶ Independence Considerations
- ▶ Other Required Communications
- ▶ Other Matters
- ▶ Upcoming Financial Reporting Changes
- ▶ LGC Performance Indicators

This information is intended solely for the use of the City Council and management of the City of Winston Salem, North Carolina and is not intended to be, and should not be, used by anyone other than these specified parties.



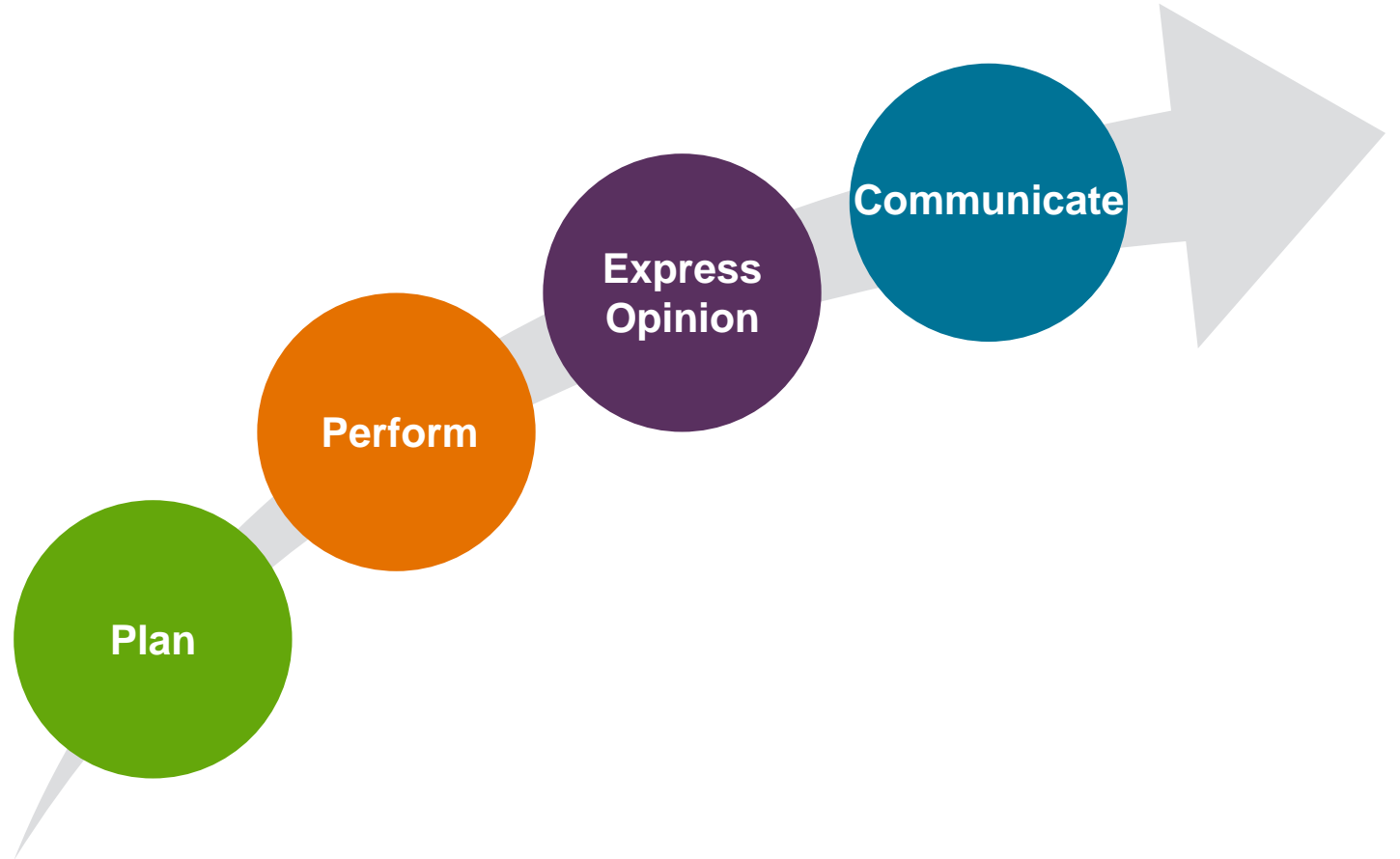
Client Service Team



Results of the Audit

We have audited the financial statements of the City of Winston-Salem, North Carolina (“City”) as of and for the year ended June 30, 2024, in accordance with generally accepted auditing standards and *Government Auditing Standards* and have issued our reports dated May 01, 2025.

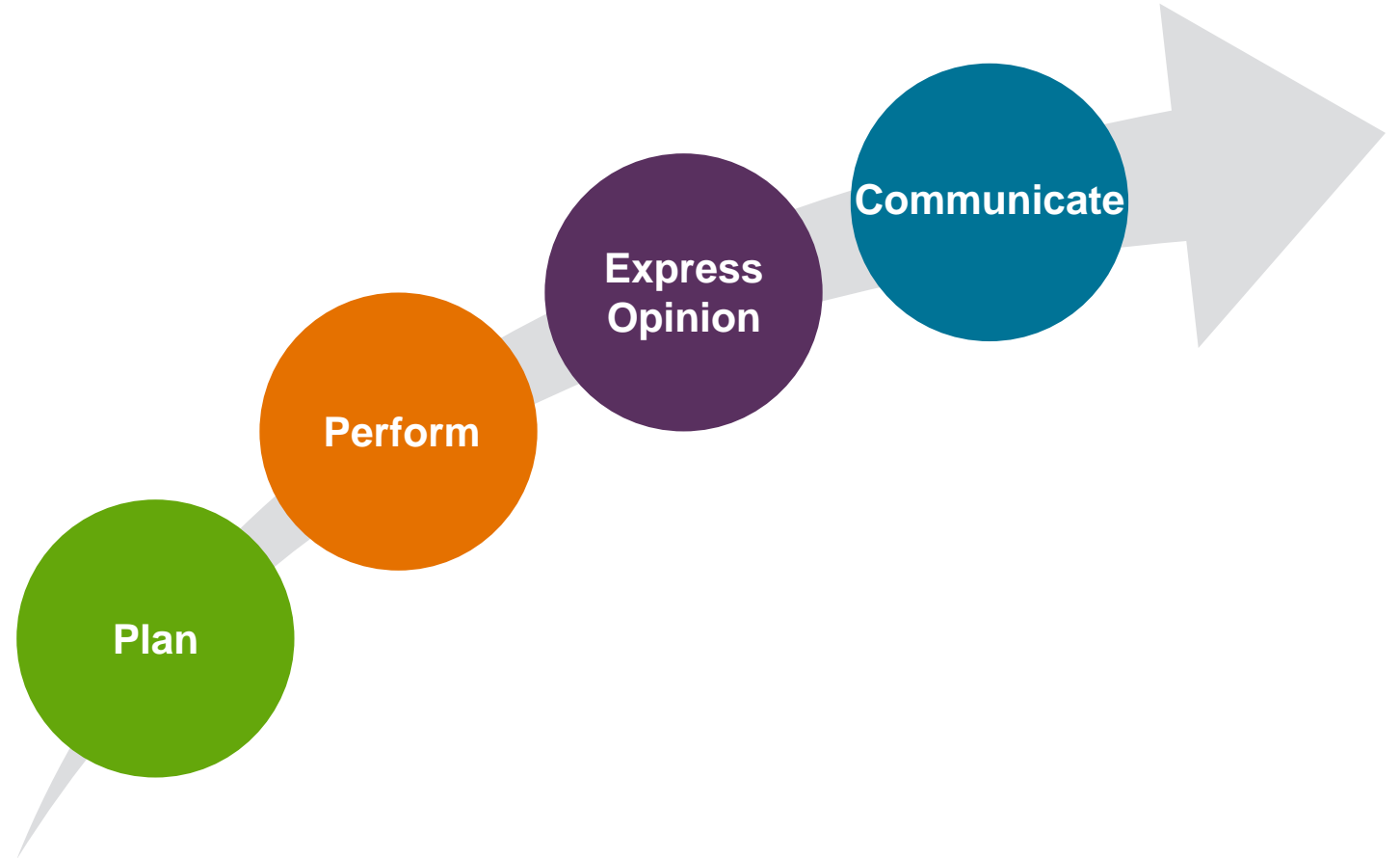
We have issued unmodified opinions on the financial statements and have noted one (1) emphasis of matter noted related to two (2) restatements in the Transit Fund discussed further in Note H.



Results of the Audit

We have also audited the City's compliance with the types of compliance requirements described in the OMB Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina that could have a direct and material effect on each of the City's major federal and State programs for the year ended June 30, 2024. We have issued our reports dated May 1, 2025.

We have issued unmodified opinions on compliance in relation to our audit of the City's major federal and State awards identified in the schedule of findings and questioned costs.



Single Audit Programs

Federal Major Programs

- ALN 14.267 –
 - Continuum of Care
- ALN 20.205 –
 - Highway Planning and Construction
- ALN 66.468 –
 - Drinking Water Revolving Loan Program

State Major Program

- Powell Bill
- Office of State and Budget Management



Internal Control Communication

In planning and performing our audit, we considered 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 and compliance with Uniform Grant Guidance and the NC State Single Audit Implementation Act, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

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.



Internal Control Communication

Material Weakness

- ▶ 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.

Significant Deficiency

- ▶ 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.

We noted one (1) material weaknesses which is described on the next slide.



Internal Control Communication

Material Weakness

- ▶ Finding 2024-001:

- ▶ Financial Reporting

- ▶ Material Weakness

- ▶ The City had recorded a receivable and revenue of approximately \$6,700,000, in a prior year, related to a grant where a federal grant that had not been formally awarded yet in the Transit Fund.
 - ▶ The City had approximately \$1,600,000 of noncapitalizable costs that were capitalized and not written off in the correct period in the Transit Fund.



Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

Corrected Misstatements

- ▶ The following material misstatements detected as a result of audit procedures were corrected by management and are in addition to the restatement adjusting entries already discussed on the previous slide:
 - ▶ The City recorded a receivable related to the Opioid Settlement Funds of approximately \$3,800,000 for amounts expected to be received over the next fifteen years. A deferred inflow of resources was recognized at the fund level and revenue was recognized at the Government Type Activities.



Corrected and Uncorrected Misstatements

Uncorrected Misstatements

- ▶ The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit. The following are the uncorrected misstatements:
 - ▶ The Capital Project Fund had approximately \$300,000 that should have been reported as due from other governments and a deferred inflow of resources at the governmental fund level and as revenue at the government wide level that was not recorded.
 - ▶ The Water and Sewer Fund had \$1,500,000 of noncapitalizable costs recorded in construction in progress in the prior year that were written off in the current year but should have been an expenditure in the prior year
 - ▶ The Solid Waste Fund had approximately \$180,000 of revenue that was not properly accrued as of June 30, 2024 and was recognized in fiscal year 2025.



Corrected and Uncorrected Misstatements

Uncorrected Misstatements

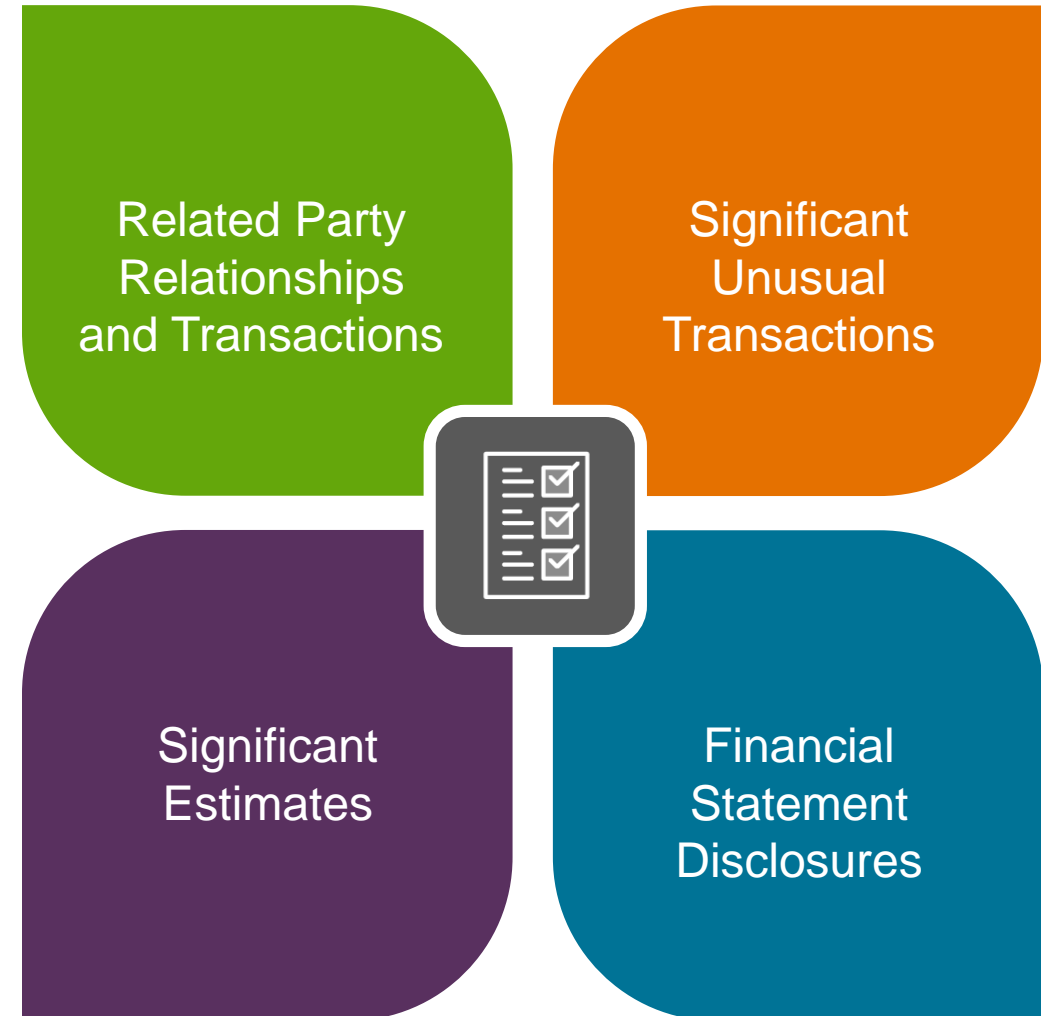
- ▶ The City did not previously recognize any amounts due in the future related to the Opioid Settlement agreement as the City considered the settlement to be a non-exchange transaction rather than an exchange transaction. Further clarification from the State regarding the Memorandum of Agreement issued by the State of NC and signed by the City noted that the funds to be received were considered exchange transactions. As a result, the City did not properly recognize approximately \$3,800,000 of Opioid Settlement amounts expected to be received in the future as a due from other governments and deferred inflow of resources at the fund level for the aggregate remaining funds and revenue at the governmental activities level. The City adjusted for this in the current year and have passed on correcting as a restatement.
- ▶ The City recognized approximately \$585,000 of revenue and expenditures related to a grant that should have been reported as unearned revenue and prepaid asset, respectively, in the aggregate remaining funds.



Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements.

No new accounting policies were adopted, and the application of existing policies was not changed during the year. We noted no inappropriate accounting policies or practices.

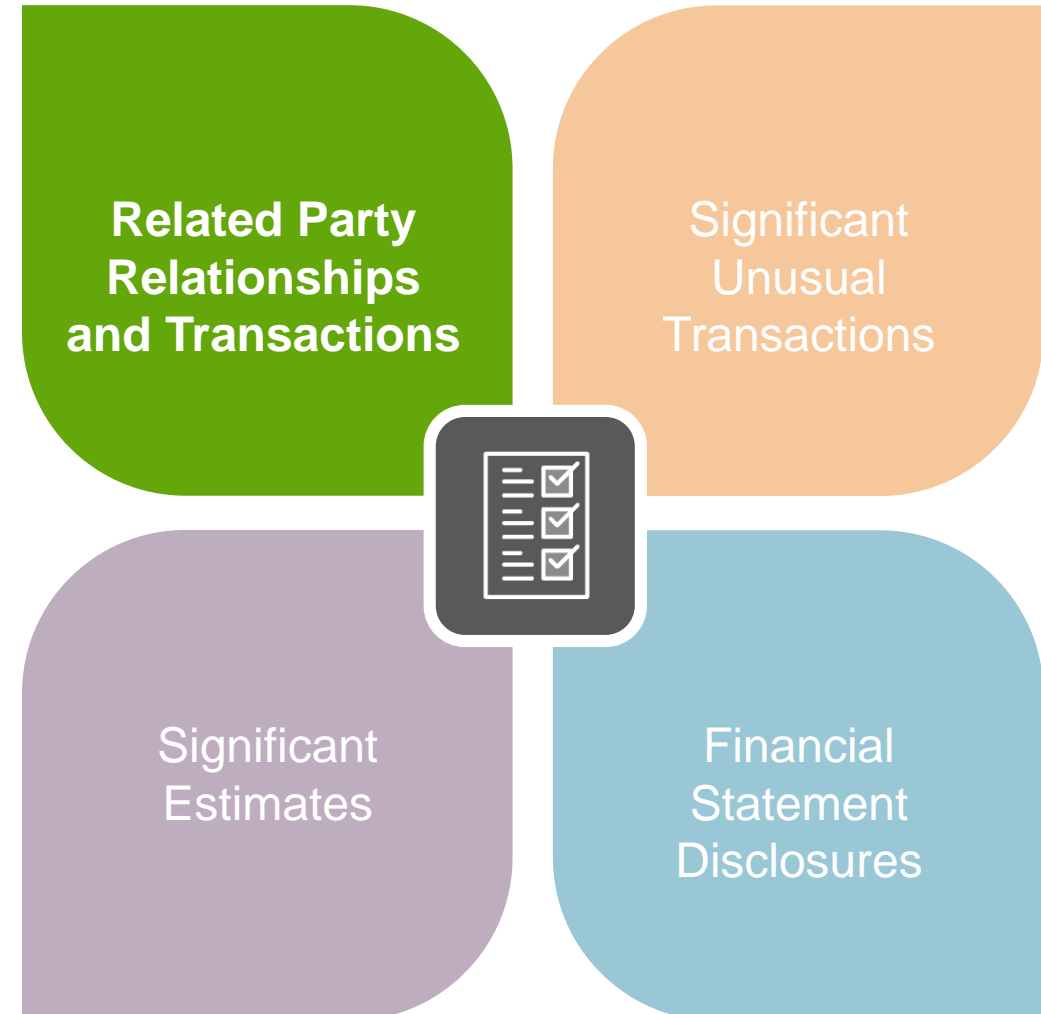


Qualitative Aspects of Accounting Practices

As part of our audit, we evaluated the City's identification of, accounting for, and disclosure of the City's relationships and transactions with related parties as required by professional standards.

We noted none of the following:

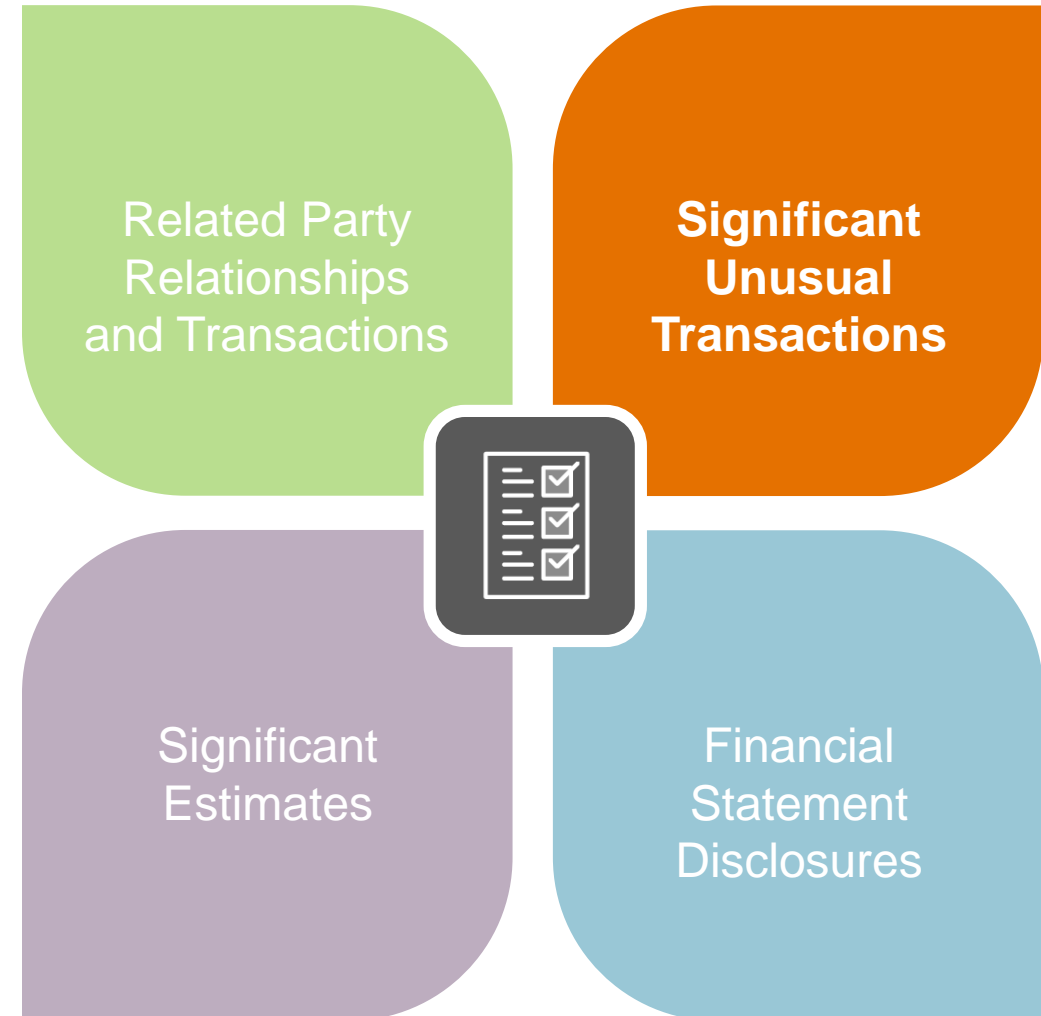
- Related parties or related party relationships or transactions that were previously undisclosed to us;
- Significant related party transactions that have not been approved in accordance with the City's policies or procedures or for which exceptions to the City's policies or procedures were granted;
- Significant related party transactions that appeared to lack a business purpose;
- Noncompliance with applicable laws or regulations prohibiting or restricting specific types of related party transactions; and
- Difficulties in identifying the party that ultimately controls the City.



Qualitative Aspects of Accounting Practices

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

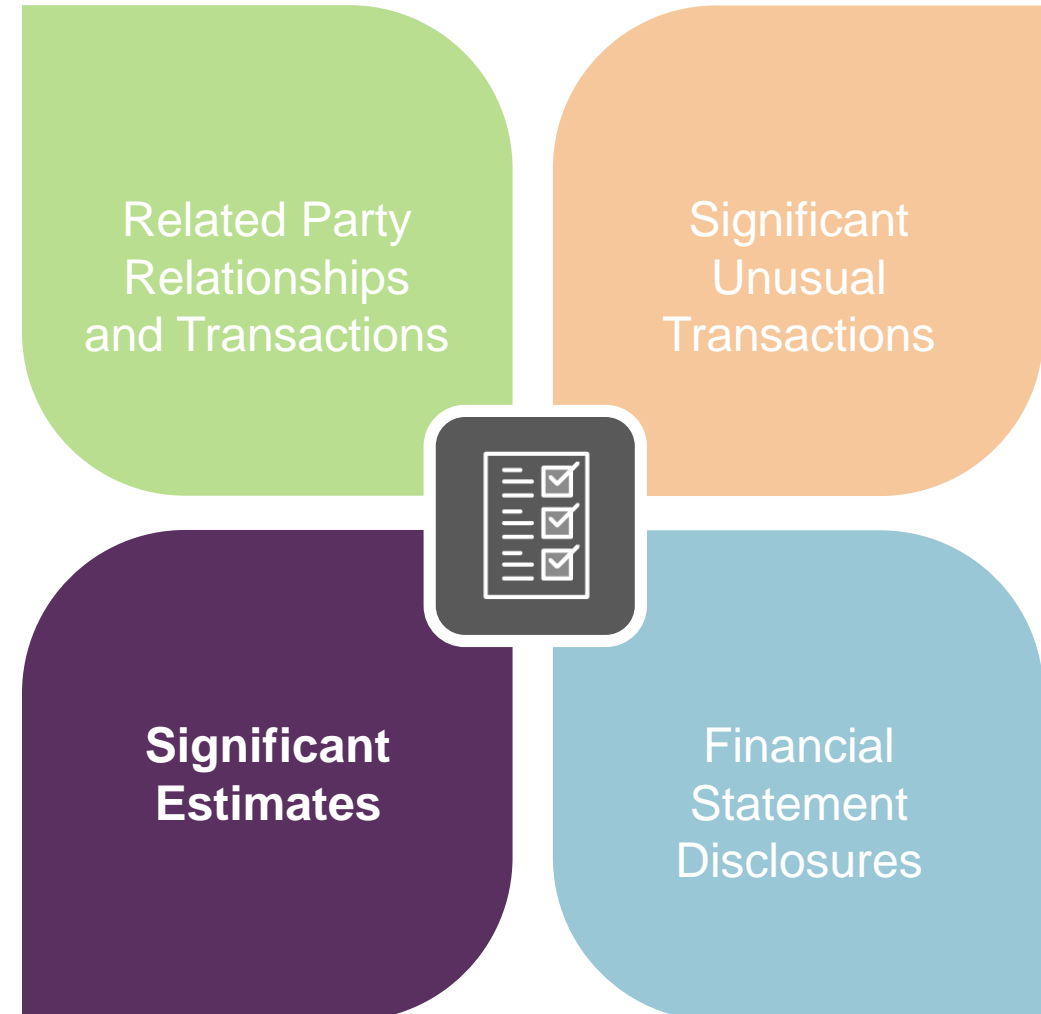
For purposes of this presentation, professional standards define significant unusual transactions as transactions that are outside the normal course of business for the City or that otherwise appear to be unusual due to their timing, size, or nature. We noted no significant unusual transactions during our audit.



Qualitative Aspects of Accounting Practices

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

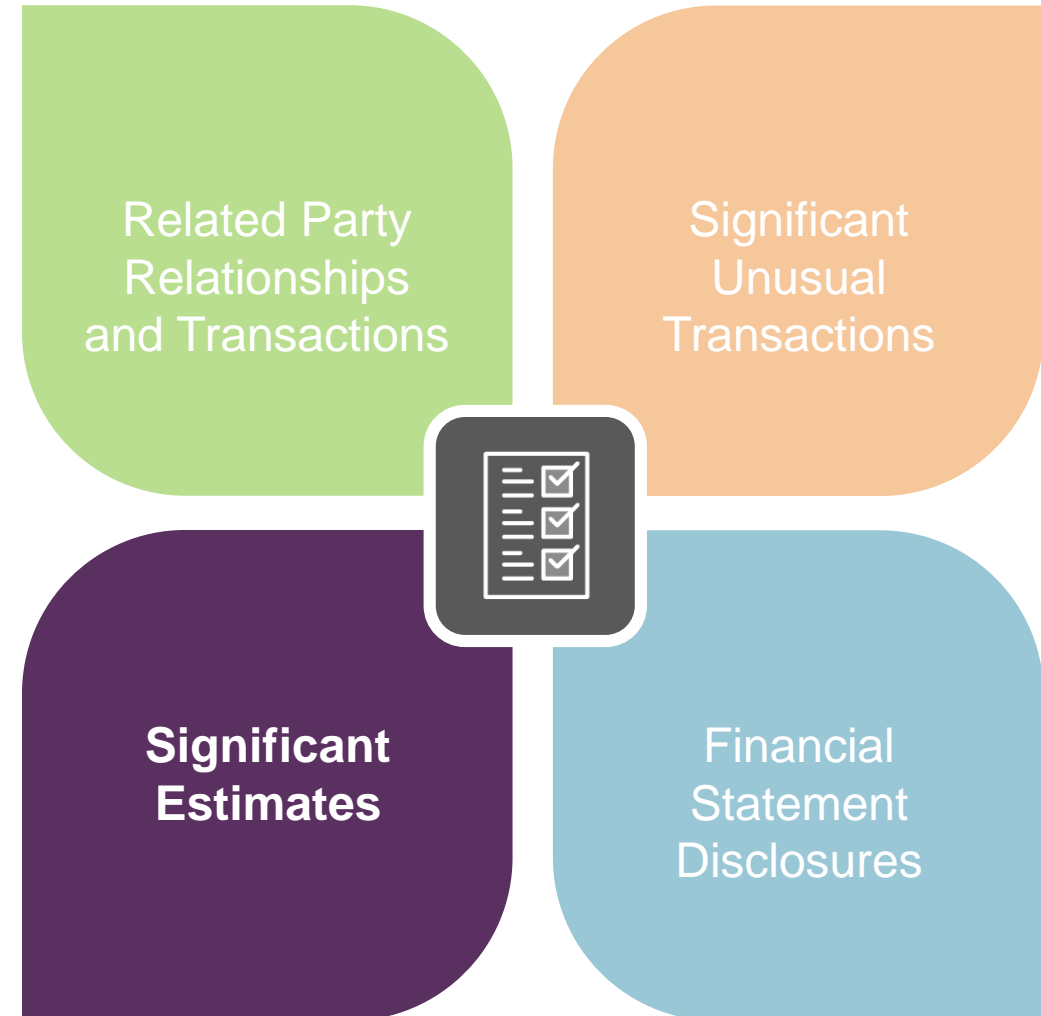
- Allowance for doubtful accounts
- Depreciation expense (estimated useful lives of assets)
- Pensions, OPEB and IBNR liabilities and related deferred outflows and inflows
- Landfill liability
- Lease liabilities and receivables



Qualitative Aspects of Accounting Practices

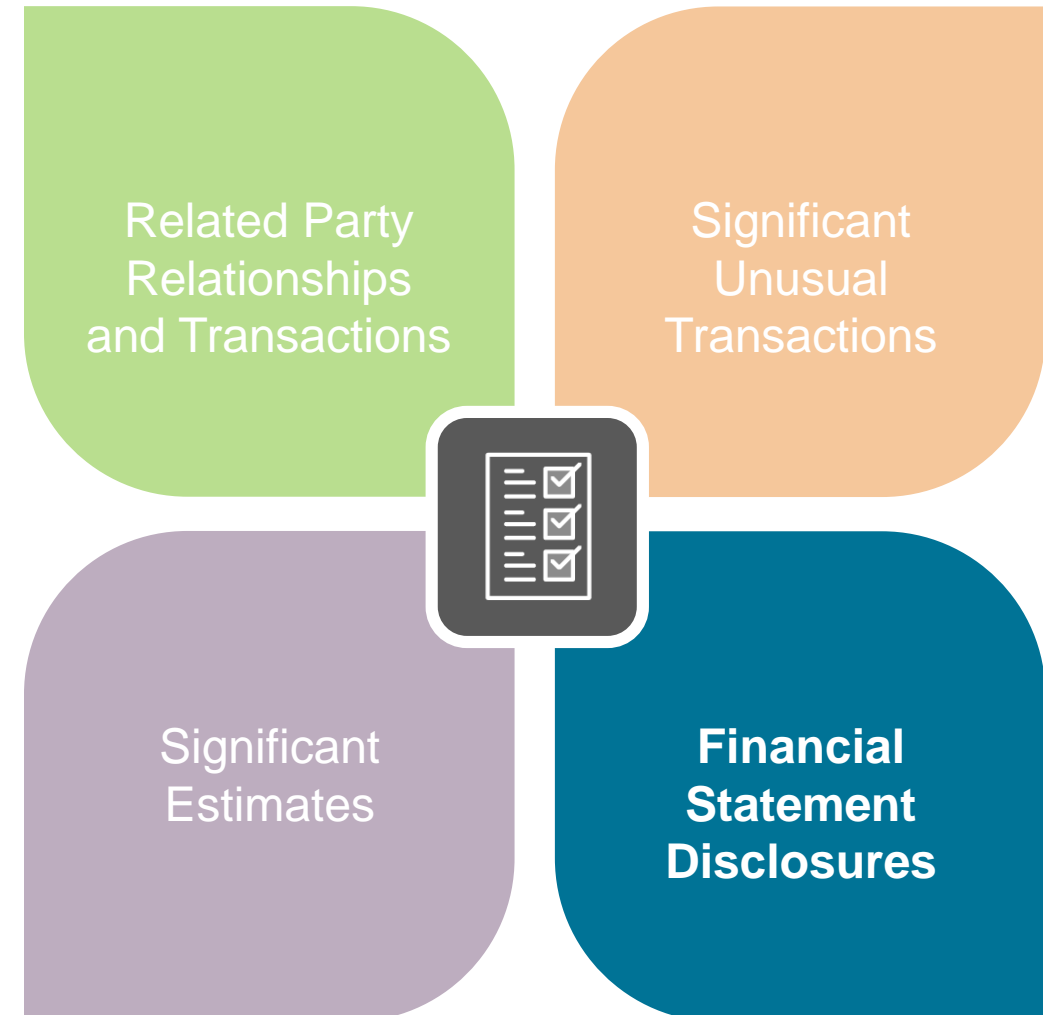
Management's estimate of the identified on the last side are based on the analysis of historical collection trends, estimated useful life of the asset, actuarial valuations, engineers estimates for closure and postclosure costs and the City's incremental borrowing rate and lease terms.

We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.



Qualitative Aspects of Accounting Practices

The financial statement disclosures are neutral, consistent, and clear.



Independence Considerations

Nonattest Services

- ▶ Our firm's advisory services assisted in the preparation of the City's annual comprehensive financial report.
- ▶ Assist in the preparation of the Data Collection Form.
- ▶ For all nonattest services we perform, you are responsible for designating a competent employee to oversee the services, make any management decisions, perform any management functions related to the services, evaluate the adequacy of the services, and accept overall responsibility for the results of the services.

Independence Conclusion

- ▶ We are not aware of any other circumstances or relationships that create threats to auditor independence.
- ▶ We are independent of the City and have met our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.



Other Required Communications

Difficulties Encountered

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

Includes disagreements on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Auditor Consultations

We noted no matters that are difficult or contentious for which the auditor consulted outside the engagement team.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated **May X, 2025**.



Other Required Communications

Management Consultations

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. To our knowledge, there were no such consultations with other accountants.

Other Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Fraud and Illegal Acts

As of the date of this presentation, no fraud, illegal acts, or violations of laws and regulations noted, other than those already we were made aware of.

Going Concern

No events or conditions noted that indicate substantial doubt about the City’s ability to continue as a going concern.



Other Matters

Required Supplementary Information

We applied certain limited procedures to management's discussion and analysis and required supplemental information ("RSI"), as listed in the table of contents, which supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.



Supplementary Information

We were engaged to report on the accompanying combining and individual fund financial statements and schedules, Schedule of General Obligation Bonds and schedule of expenditures of federal and state awards, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.



Other Matters

Other Information

We were not engaged to report on the introductory and statistical section, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements themselves and, accordingly, we do not express an opinion or provide any assurance on it.



Upcoming Financial Reporting Changes

These standards will be effective for the City in the upcoming years and may have a significant impact on the City's financial reporting.

We would be happy to discuss with management the potential impacts on the City's financial statements and how we may be able to assist in the implementation efforts.

GASB 101 –
*Compensated
Absences*

GASB 102 –
Certain Risk
Disclosures

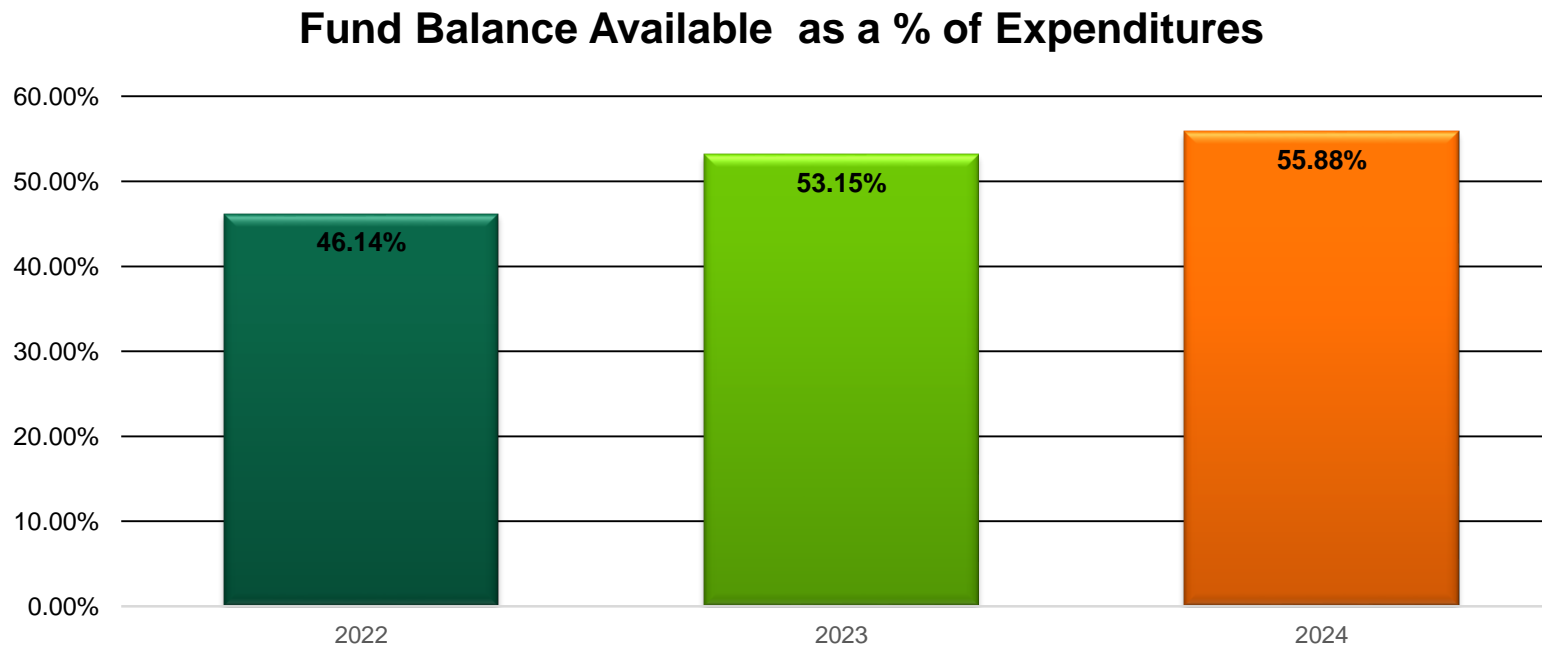
GASB 103 –
Financial
Reporting Model
Improvements

GASB 104 –
Disclosure of
Certain Capital
Assets



Local Government Commission (LGC) Performance Indicators – General Fund

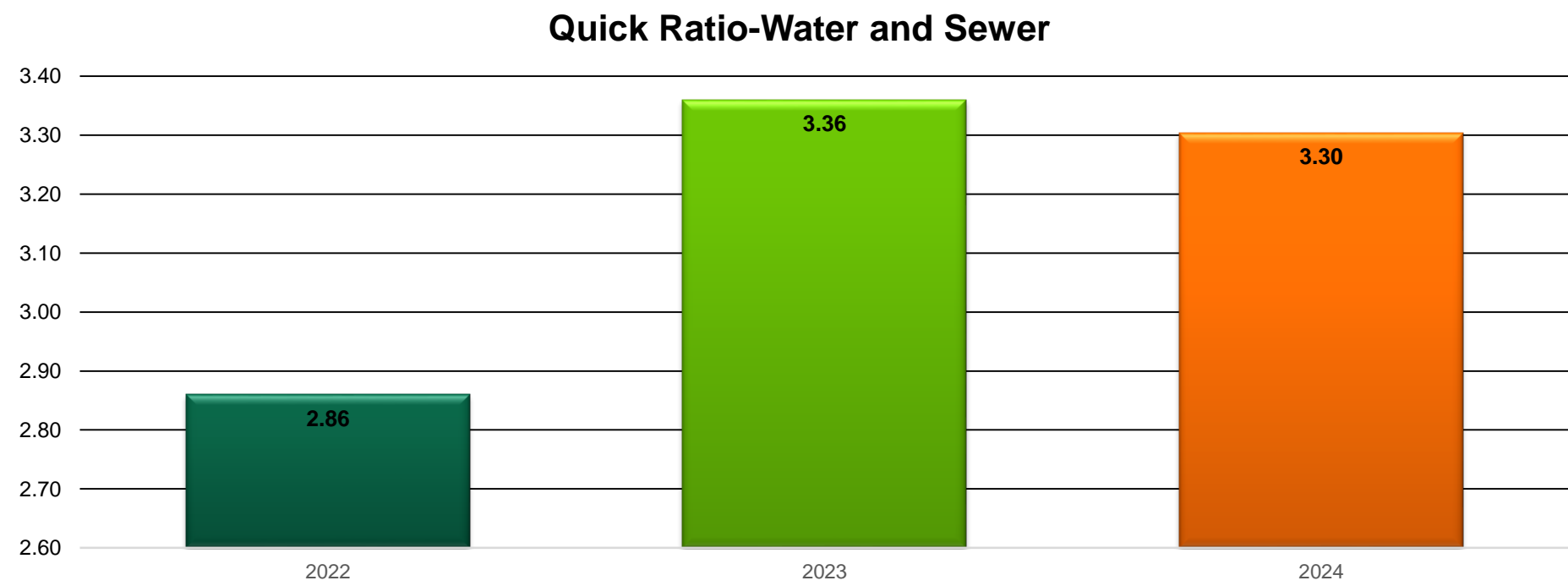
* Included in the LGC's calculation is the municipal debt service fund balance



✓ LGC Required Minimum Threshold – 25%



LGC Performance Indicators – Quick Ratio – Water and Sewer



✓ LGC Required Minimum Threshold – Equal or greater than 1.00



LGC Performance Indicators – Water and Sewer

Performance Indicator	2024	Minimum Threshold
Operating Net Income (loss) excluding depreciation+ debt service principal	\$33,238,342	Greater than \$0
Unrestricted cash / Total expenses less depreciation + debt service principal	97.44%	Greater than 16% (2 months)

Performance Indicator	2023	2023	2024	Minimum Threshold
Water and Sewer Condition of Assets	0.60	0.60	.59	Remaining useful life of asset greater than or equal to 0.50



Local Government Commission Performance Indicators

Audit Report –

- ✓ Budgeted tax levy for the General Fund did not have more than 3% uncollected
- ✓ Positive General Fund total fund balance
- ✓ Effective pre-audit process to avoid pervasive budget violations
- ✓ No late debt service payments or debt covenant compliance issues

One Item Requiring Response to Local Government Commission within 60 days

- Material Weakness related to Financial Statement Finding
- Late issuance of the Annual Comprehensive Financial Report
- Statutory Budget Violations



Questions

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