

# CITY OF HIGH POINT

## AGENDA ITEM



<b>TITLE:</b> Receipt and Presentation of FY 2023-2024 Audit Report	
<b>FROM:</b> Bobby Fitzjohn, Financial Services Director	<b>MEETING DATE:</b> December 16, 2024
<b>PUBLIC HEARING:</b> N/A	<b>ADVERTISED DATE/BY:</b> N/A
<b>ATTACHMENTS:</b> Audit Presentation LGC Response	

**PURPOSE:** The City Council has statutory responsibility under G.S. 159-34 to engage an auditor for the financial and compliance audit of the City's budgets, accounts, and grants. The presentation of the Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2024, will be presented by the audit firm Cherry Bekaert LLP.

**BACKGROUND:** The City Council approved the contract with Cherry Bekaert LLP for the financial and compliance audit of the City of High Point for the Fiscal Years 2024-2028 in March 2024. The Annual Comprehensive Financial Report was prepared by the City's Financial Services Department and the audit was completed on November 26, 2024.

The Annual Comprehensive Financial Report can be found on the Financial Services section of the City's website. <https://www.highpointnc.gov/1028/Financial-Services>

**BUDGET IMPACT:** None

**RECOMMENDATION/ACTION REQUESTED:** City Council is requested to acknowledge receipt of the City of High Point Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2024, and related required communications from the City's auditors, Cherry Bekaert LLP and approve the Local Government Commission response.





# Audit Executive Summary

December 16, 2024

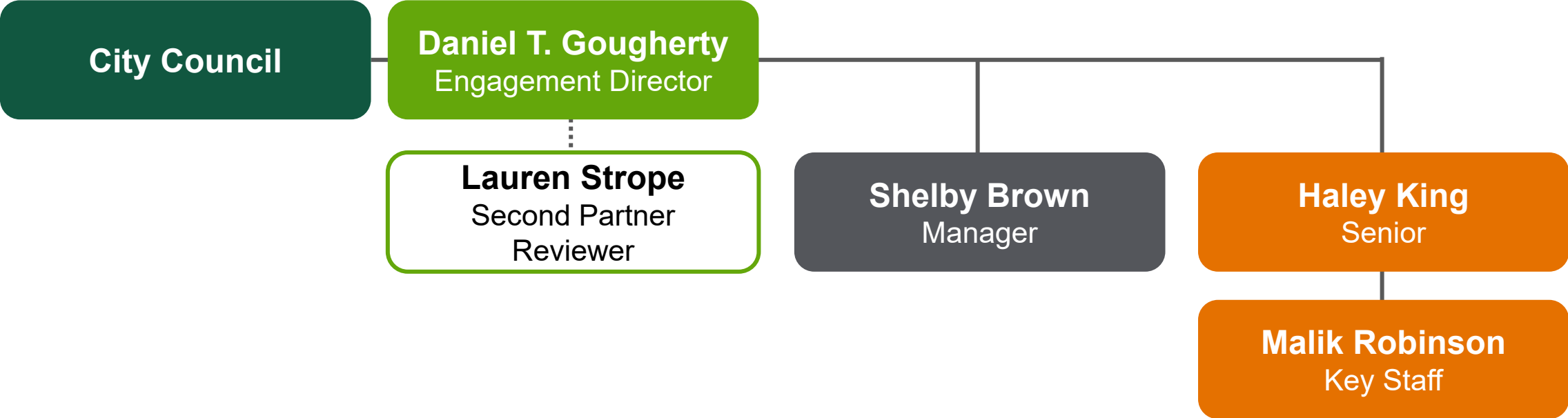
# Agenda

- ▶ Client Service Team
- ▶ Results of the Audit
- ▶ Significant Audit Matters
- ▶ Internal Control Communication
- ▶ Internal Control and Compliance
- ▶ Internal Control over Compliance Finding
- ▶ Corrected and Uncorrected Misstatements
- ▶ Qualitative Aspects of Accounting Practices
- ▶ Independence Considerations
- ▶ Other Required Communications
- ▶ Other Matters
- ▶ Upcoming Financial Reporting Changes
- ▶ Local Government Commission Financial Performance Indicators
- ▶ Question and Comments

This information is intended solely for the use of City Council and management of the City of High Point, 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 High Point, North Carolina (the “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 report dated November 26, 2024.

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 report dated November 26, 2024.

We have issued unmodified opinions on the financial statements and on compliance related to single audits performed in accordance with Uniform Grant Guidance and the State Single Audit Implementation Act.



# 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 on compliance with Uniform Guidance and the 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 or noncompliance 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 no material weaknesses and reported one significant deficiency.



# Internal Control and Compliance

## Single Audit (Grants)

### Federal Major Programs

- National Infrastructure Grant (RAISE) - ALN 20.933
- Equitable Sharing Program – ALN 16.922

### State Major Programs

- Powell Bill

Verified  
Compliance  
with Grant  
Agreements





# Finding 2024 -001 – Significant Deficiency- Reporting

## Criteria, Condition, and Effect

- ▶ **Criteria** – Per the U.S. Department of Transportation general terms and conditions under the Rebuilding American Infrastructure with Sustainability and Equity (RAISE) grant program, the recipient is required to submit to the USDOT a quarterly project progress report and recertification. Additionally, the recipient is required to submit a final project progress report and recertification no later than 120 days after the end of the period of performance. Further, per Section 200.303 of the Uniform Grant Guidance, a non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. The City should have a control in place for reports submitted to the awarding agency to be reviewed by an employee within the department separate from the employee preparing the report.
- ▶ **Condition** – While the reports were timely submitted to the awarding agency, the reports submitted to the awarding agency were not reviewed by an individual at the City prior to submission
- ▶ **Effect** - By not having the required reports reviewed prior to submission, the City could erroneously submit incorrect data to the awarding agency.

## Questioned Cost

- ▶ None noted

## Cause and Recommendation

- ▶ **Cause** – The grant liaison did not follow the City's Grants Management Policy.
- ▶ **Recommendation** - The City should ensure the program manager is following its Grant Management Policy and Uniform Guidance for this program by reports being reviewed prior to submission.



# 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

- ▶ None noted.



# Corrected and Uncorrected Misstatements

## Uncorrected Misstatement

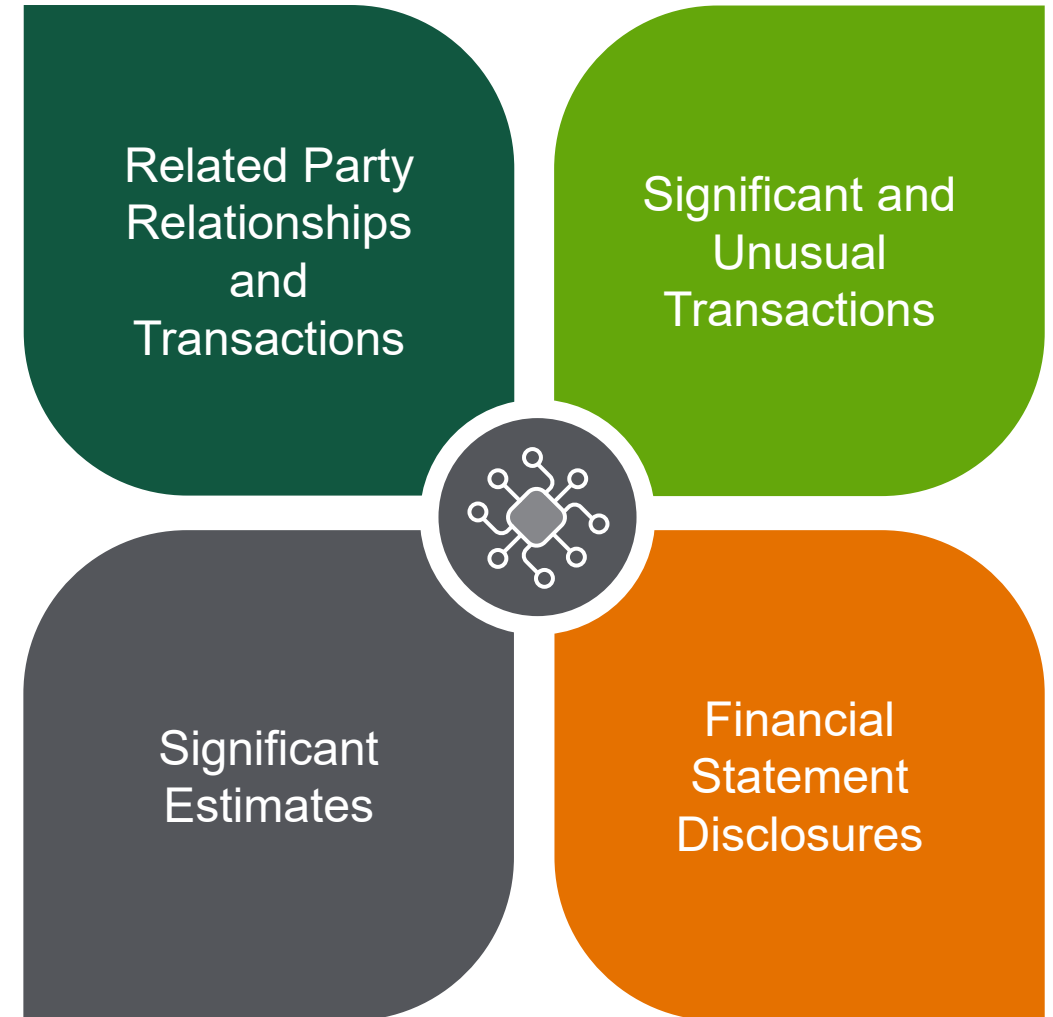
- ▶ The following summarizes an uncorrected misstatement of the financial statements. Management has determined its effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The uncorrected misstatement or matters underlying it could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatement is immaterial to the financial statements under audit.
  - ▶ Understatement of beginning fund balance (General Fund) and net position (Govt Activities) and overstatement of current year revenue of approximately \$2,700,000 as a result of 2023 passed adjustment related to the accrual of sales tax.
  - ▶ Understatement of beginning fund balance (Opioid Settlement Fund) and net position (Govt Activities) and overstatement of current year revenue of \$549,147 related to opioid settlement revenue that was reported as unearned revenue in the prior year.



# 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.

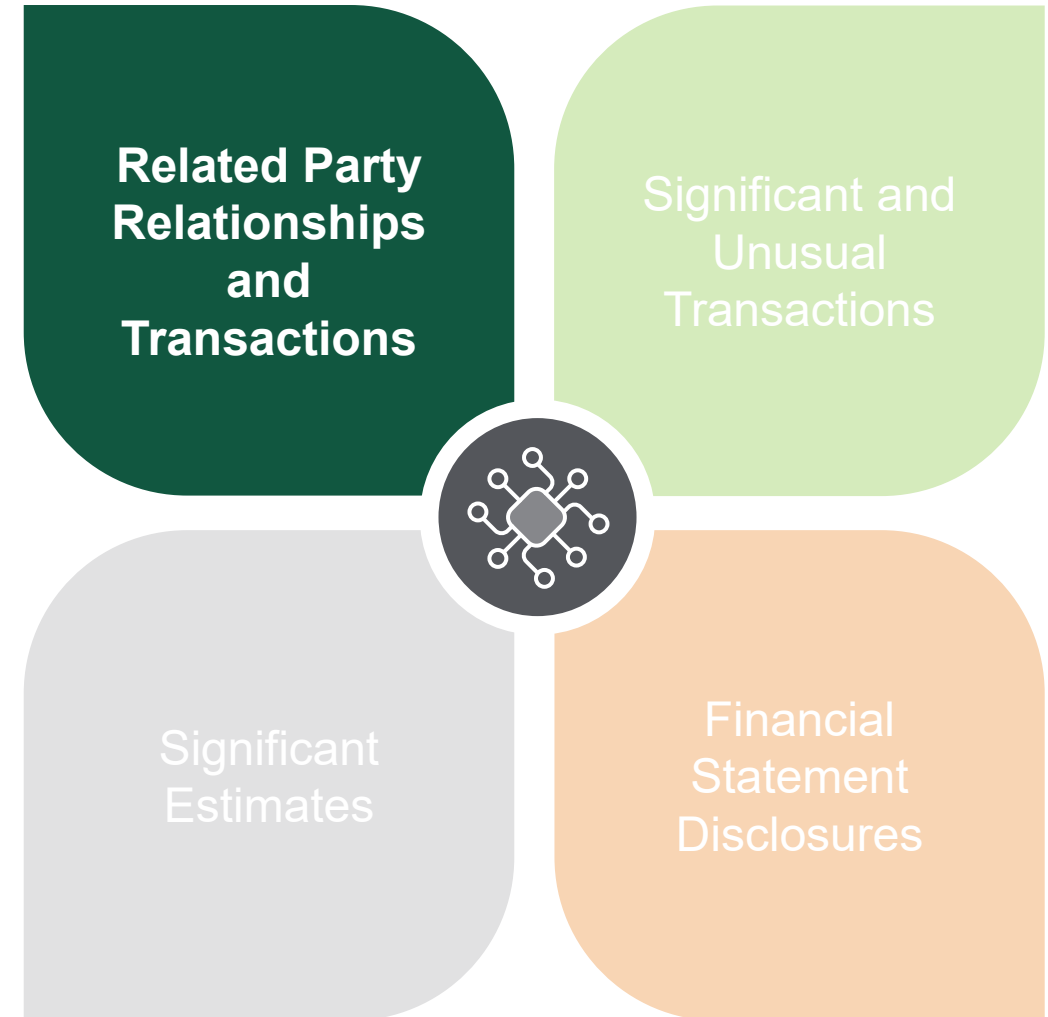


# Qualitative Aspects of Accounting Practices

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:

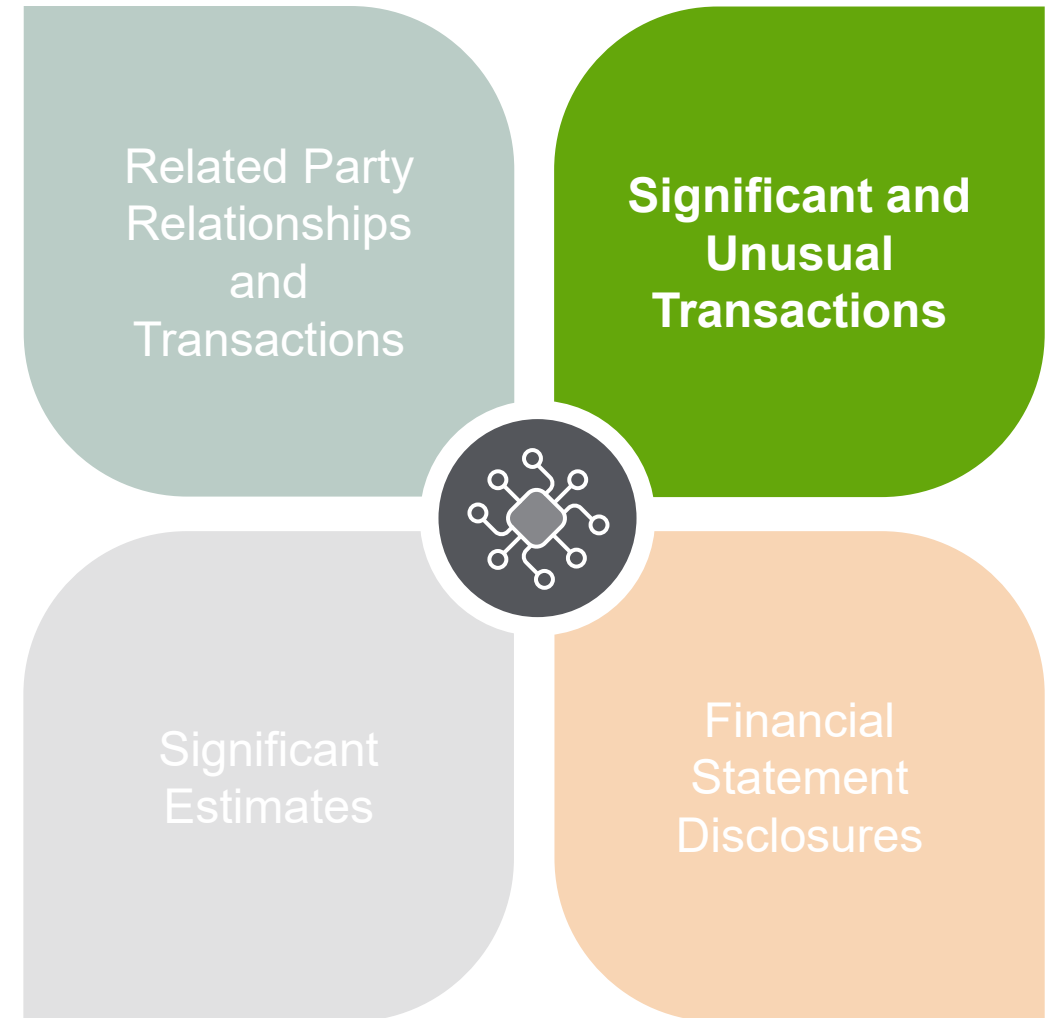
- Related parties or related party relationships or transactions that were previously undisclosed to us;
- Significant related party transactions that have not been approved in accordance with the City's policies or procedures or for which exceptions to the City's policies or procedures were granted;
- 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.

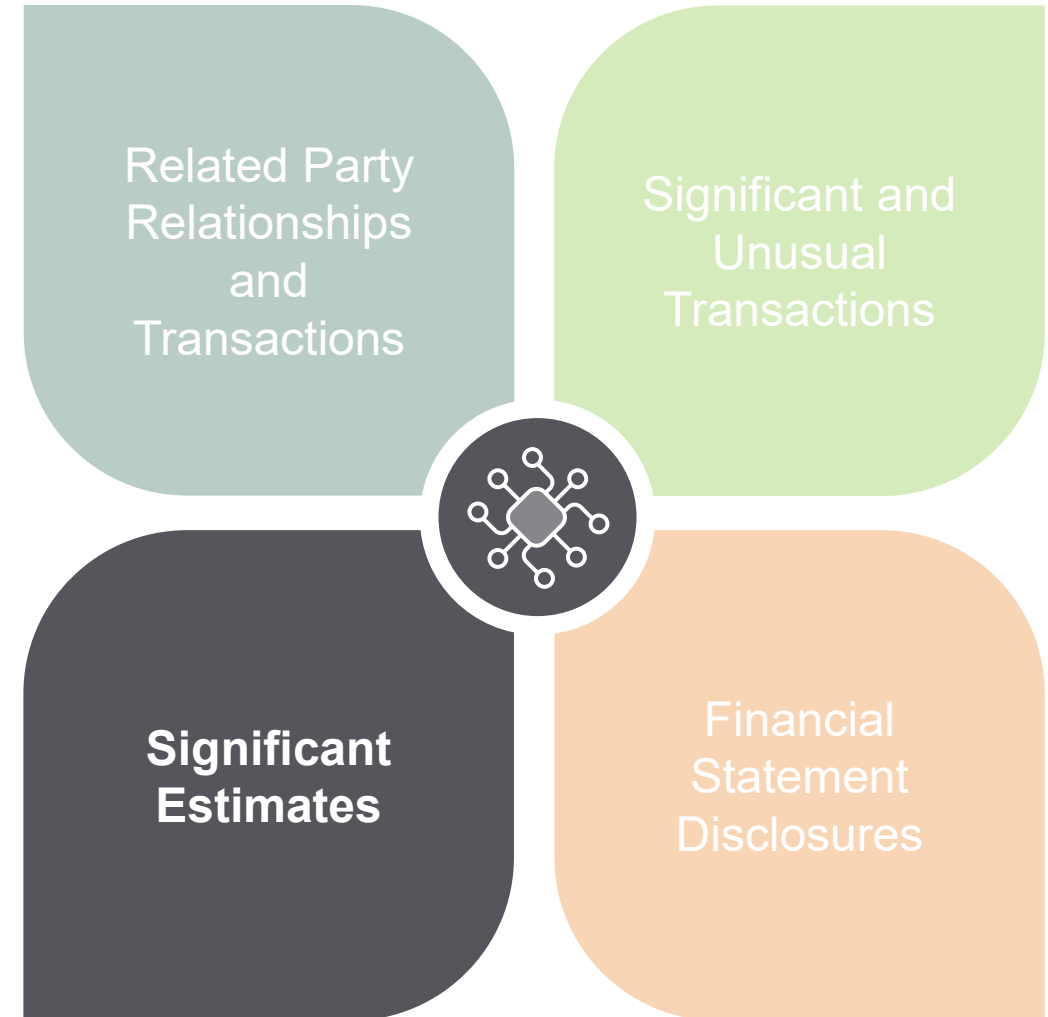


# Qualitative Aspects of Accounting Practices

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:

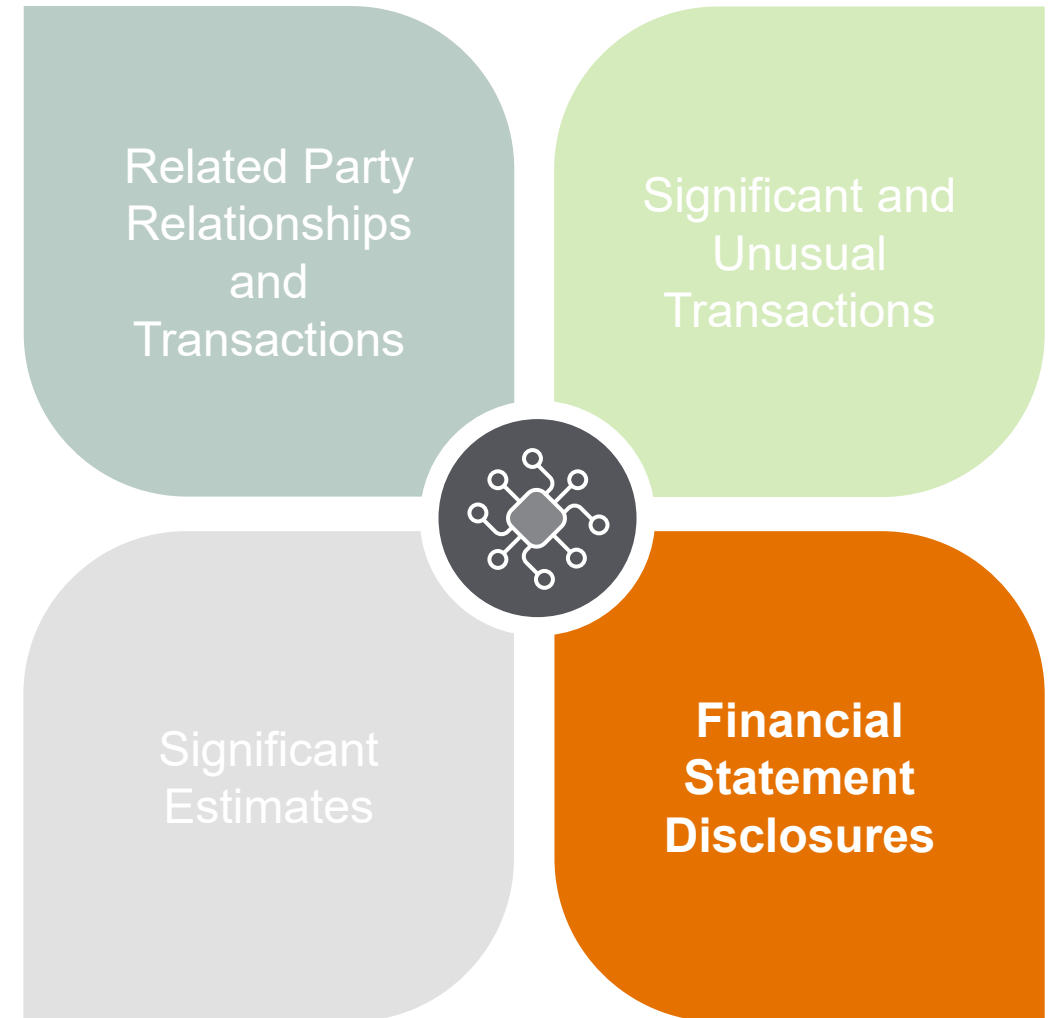
- Accrual for unbilled revenue (utilities)
- Allowance for uncollectible accounts
- Depreciable lives and estimated residual value of capital assets
- Leases and Subscription Based IT Arrangements
- Fair value of investments
- Defined benefit plans (LGERS and LEOSSA) liabilities and related deferred inflows and outflows of resources
- Other postemployment benefit plan OPEB liability and related deferred inflows and outflows of resources
- Municipal solid waste landfill obligations

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.





# 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 November 26, 2024.



# 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.

## Going Concern

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



# Independence Considerations

## Nonattest Services

- ▶ We have prepared the appropriate sections of and signed 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 Matters

## Required Supplementary Information

We applied certain limited procedures to the required supplementary information (“RSI”) that 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. We were engaged to report on the other supplementary information which accompanies the financial statements, but which is not RSI.



## Supplementary Information

We were engaged to report on the accompanying combining and individual fund financial statements and schedules, other supporting schedules 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 Information

The City includes an introductory and statistical section in its annual comprehensive financial report. We do not have an obligation to perform any procedures to corroborate the other information contained in the annual report. However, we read the other information and considered whether such information, or the manner of its presentation, was materially inconsistent with that appearing in the financial statements. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, was materially inconsistent with that appearing in the financial statements.



# 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.

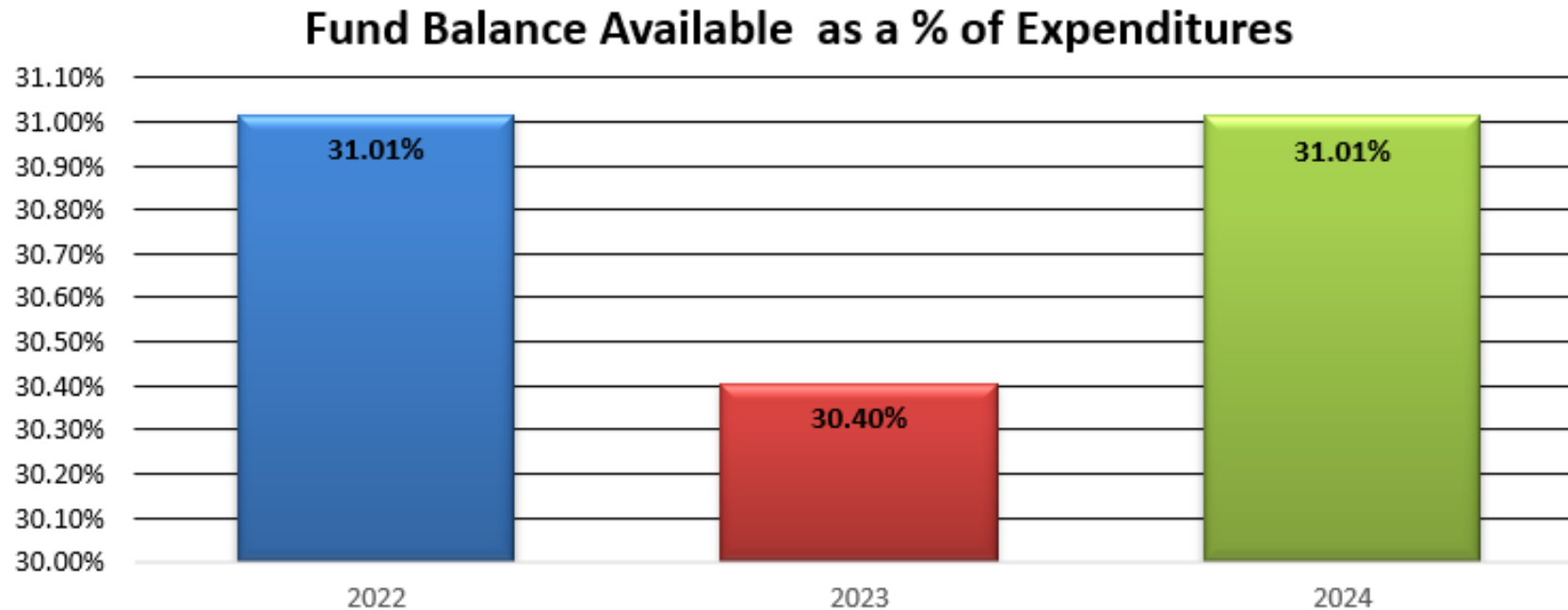
We would be happy to discuss with management the potential impacts on the City's financial statements and how we may be able to assist in the implementation efforts.

- ▶ *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

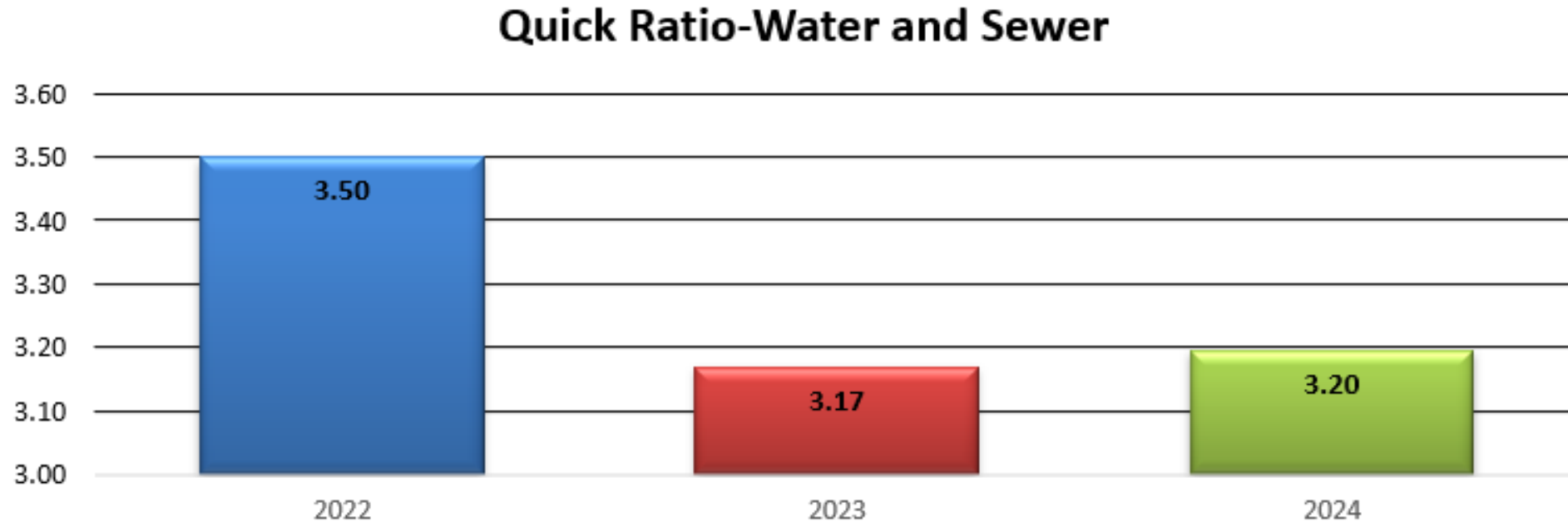
\* Included in the LGC's calculation is the municipal debt service fund balance



✓ LGC Required Minimum Threshold – 25%



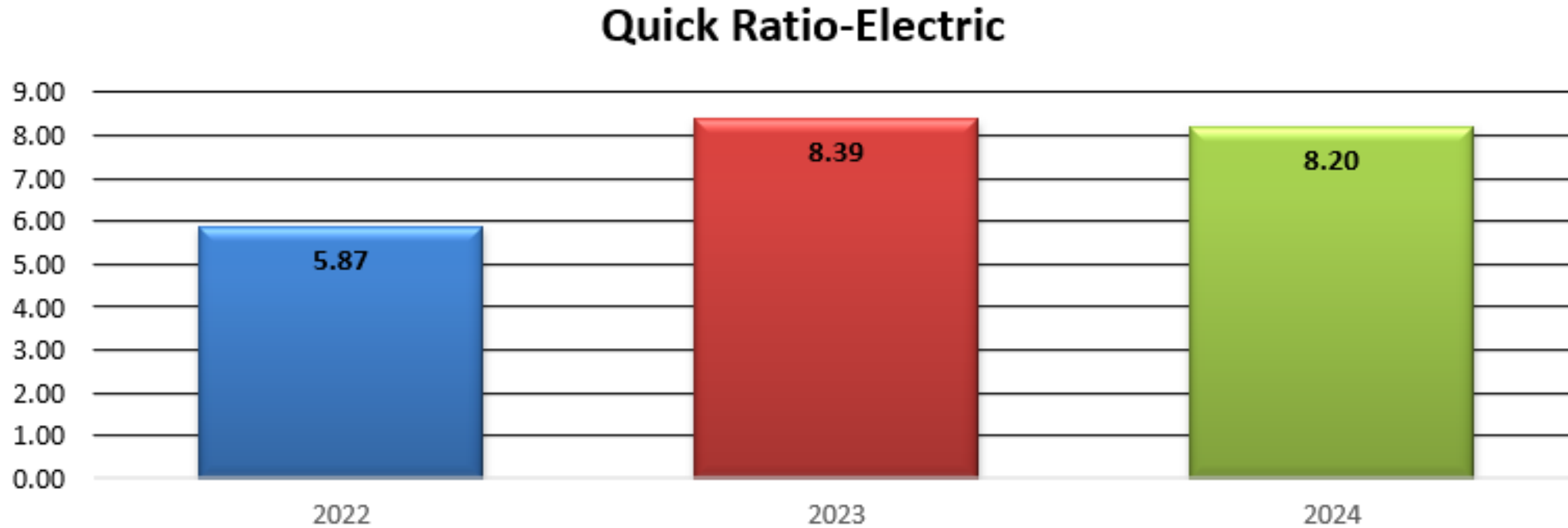
# LGC Performance Indicators – Quick Ratio – Water and Sewer



- ✓ LGC Required Minimum Threshold – Equal or greater than 1.00



# LGC Performance Indicators – Quick Ratio – Electric



- ✓ 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, including debt service principal and interest	\$9,827,545	Greater than \$-0-
Unrestricted cash / total expenses excluding depreciation, including debt service principal	82.03%	Greater than 16% (2 months)
Water and Sewer Condition of Assets	0.50	Remaining useful life of asset greater than or equal to 0.50



# LGC Performance Indicators – Electric

Performance Indicator	2024	Minimum Threshold
Operating net income (loss) excluding depreciation, including debt service principal and interest	\$12,058,329	Greater than \$-0-
Unrestricted cash/total expenses excluding depreciation, including debt service principal	68.80%	Greater than 16% (2 months)



# LGC Performance Indicators

## Audit Report –

- ✓ No financial performance indicators of concern noted
- ✓ Submitted within five (5) months from fiscal year-end
- ✓ Change in fund balance of General Fund was positive
- ✓ Budgeted tax levy for the General Fund had less than 3% uncollected
- ✓ Effective pre-audit process to avoid pervasive budget violations
- ✓ No late debt service payments or debt covenant compliance issues
- ✓ No statutory violation within Annual Comprehensive Financial Report



# Questions and Comments

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