

City of Charlotte, North Carolina **Audit Executive Summary**

February 2, 2025

Agenda

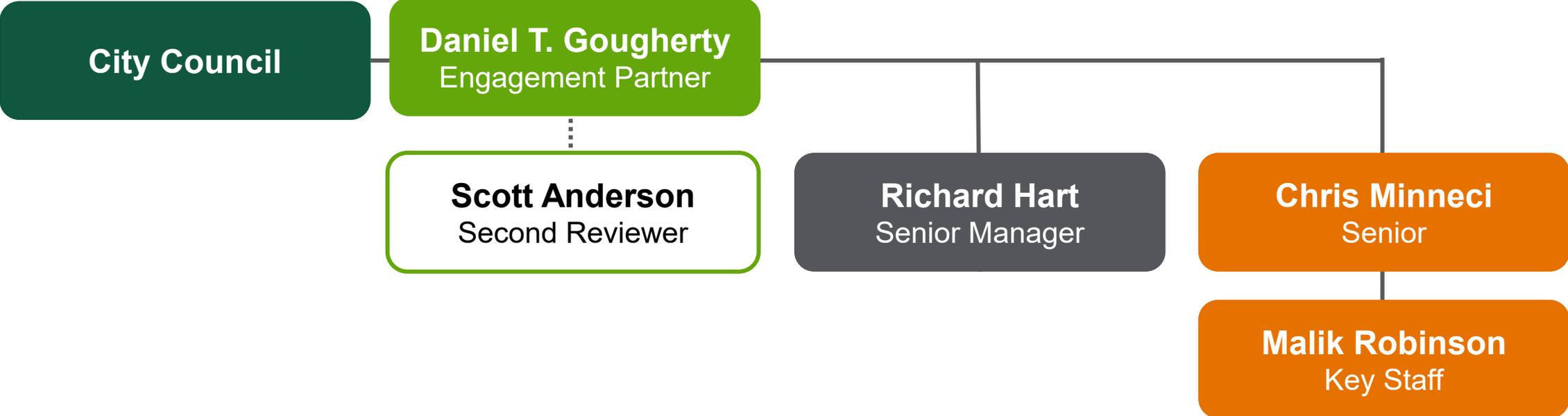


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This information is intended solely for the use of the City Council and management of the City of Charlotte, North Carolina and is not intended to be, and should not be, used by anyone other than these specified parties.



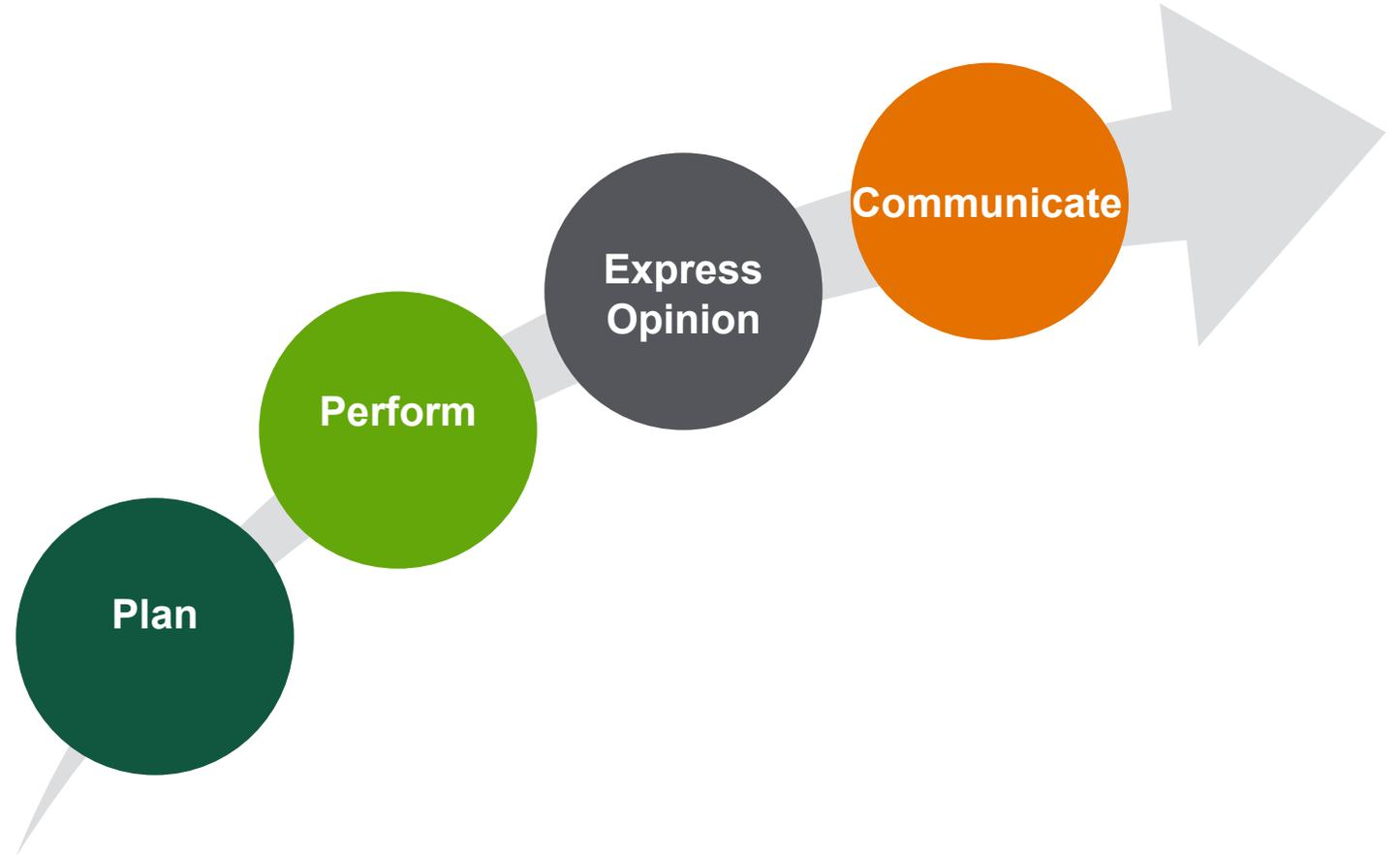
Client Service Team



Results of the Audit

We have audited the financial statements of the City of Charlotte, North Carolina (“City”) as of and for the year ended June 30, 2025, in accordance with generally accepted auditing standards and *Government Auditing Standards* and have issued our report dated December 23, 2025.

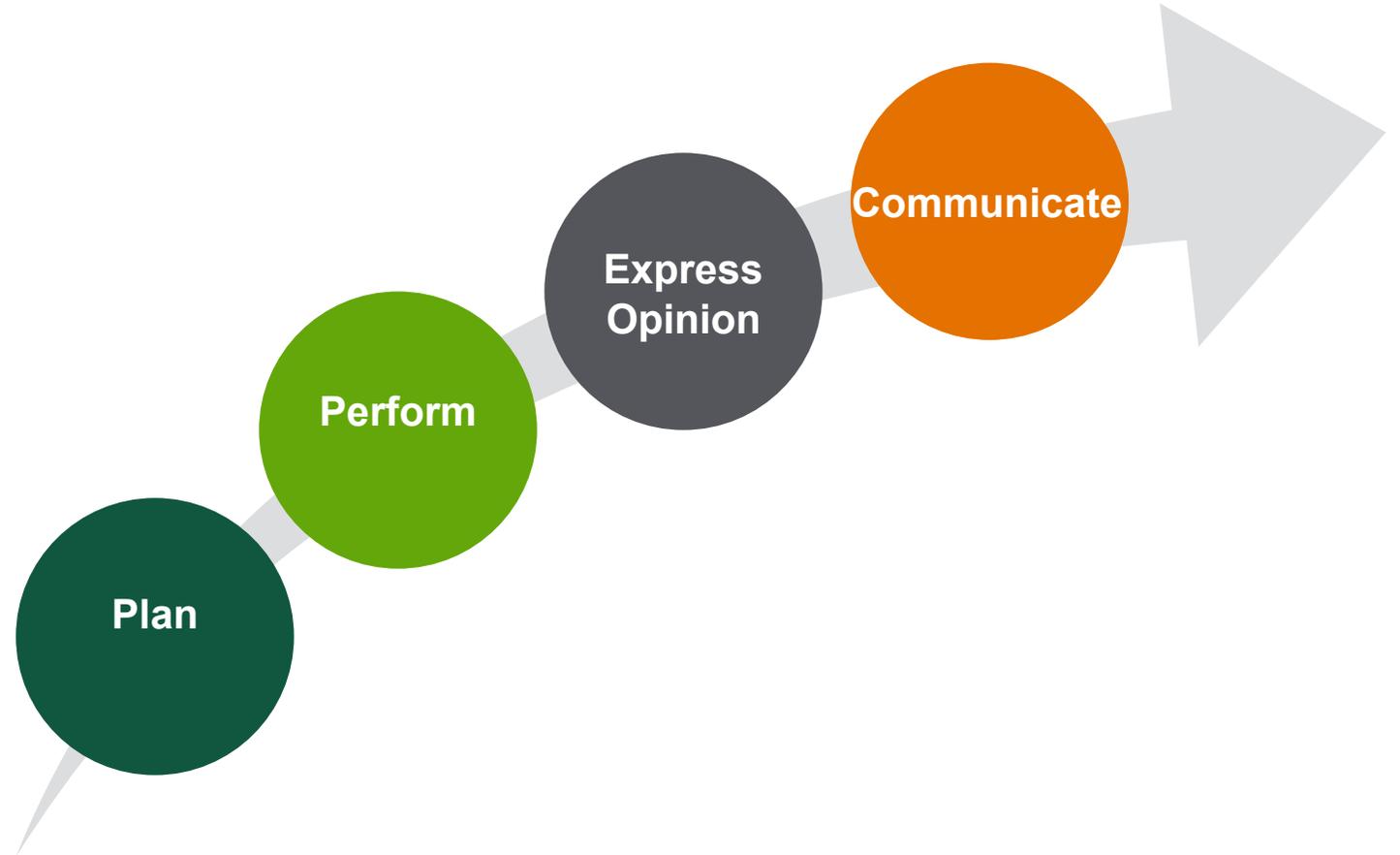
We have issued an unmodified opinion on the financial statements.



Results of the Audit

We have also audited City’s compliance with the compliance requirements described in the Audit Requirements for Federal Awards (“Uniform Guidance”) and Audit Manual for Governmental Auditors in North Carolina which could have a direct and material effect on the City’s major federal and state programs for the year ended June 30, 2025.

We have issued an unmodified opinion on the 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.



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 North Carolina 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

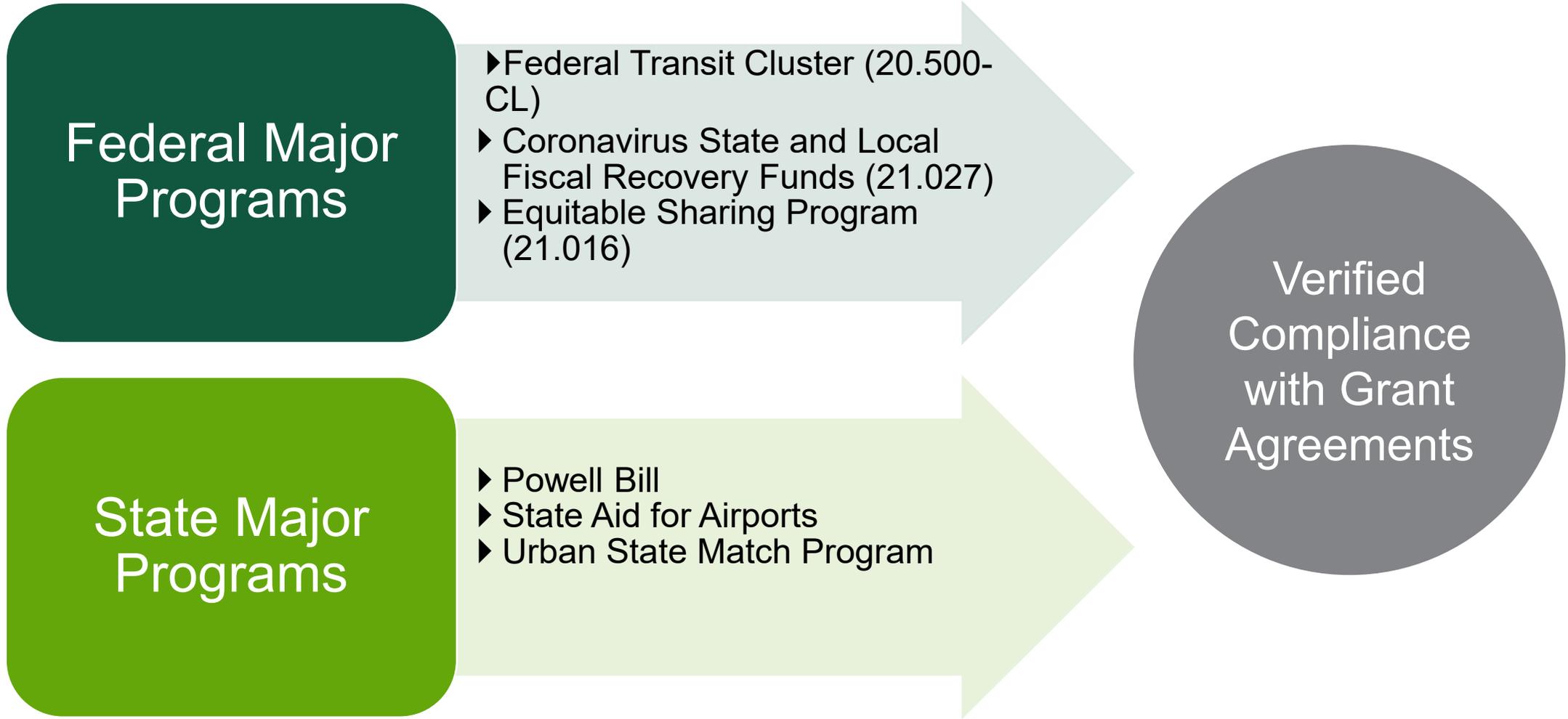
- ▶ A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We did not identify any control deficiencies that we believe to be material weaknesses.



Internal Control and Compliance

Single Audit (Grants)



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 misstatement detected as a result of audit procedures was corrected by management:
 - ▶ Decrease in expenses and an increase in a right to use asset of \$20,854,000 related to a subscription based information technology arrangement implementation costs.



Corrected and Uncorrected Misstatements

Uncorrected Misstatements

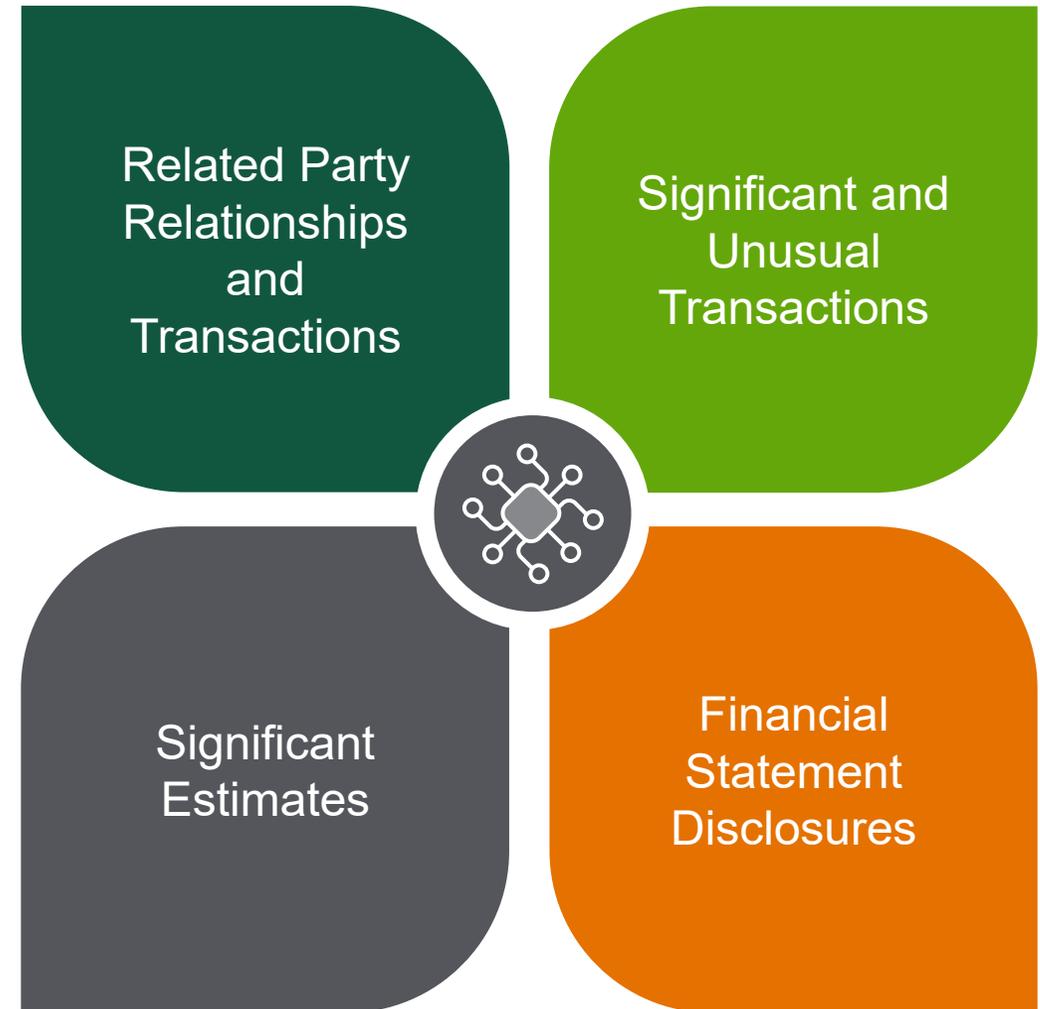
- ▶ The following summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit.
 - One uncorrected adjustment related to an over accrual of a liability for potential legal reserves of approximately \$6,100,000, for both the governmental activities and aggregate remaining funds, that should not be reported as an expenditure and payable until legal claim is considered both probable and estimable.
 - One uncorrected adjustment related to an under accrual of revenue and receivables in the amount of approximately \$5,270,000 and \$834,000 for the Water and Sewer Fund and Storm Water Fund, respectively, due to a portion of missed accruals at year end.



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.

As described in Note 1, the City changed accounting policies related to compensated absences liability by adopting Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*, implemented during fiscal year June 30, 2025. Accordingly, the accounting change has been retrospectively applied to prior periods presented by reducing net position by \$16,823,000 as if the policy had always been in place.

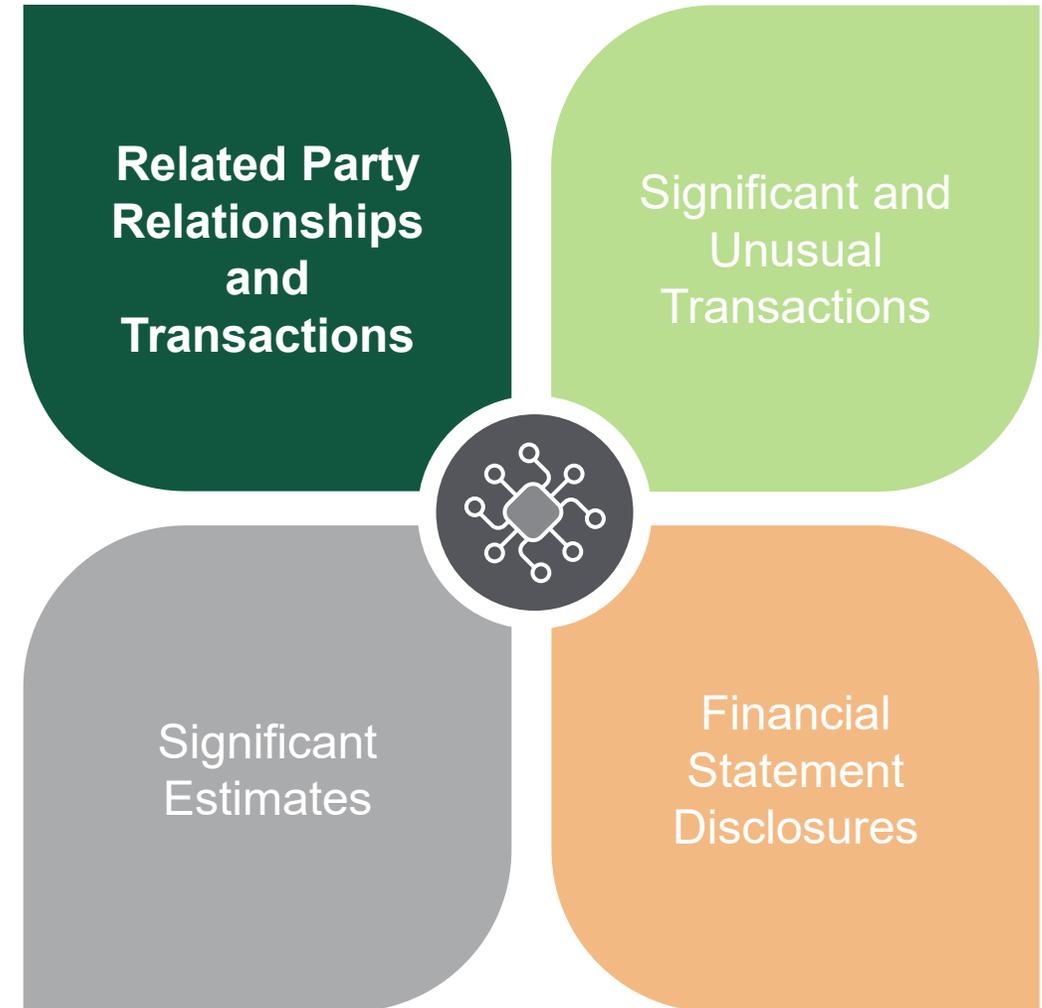


Qualitative Aspects of Accounting Practices

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:

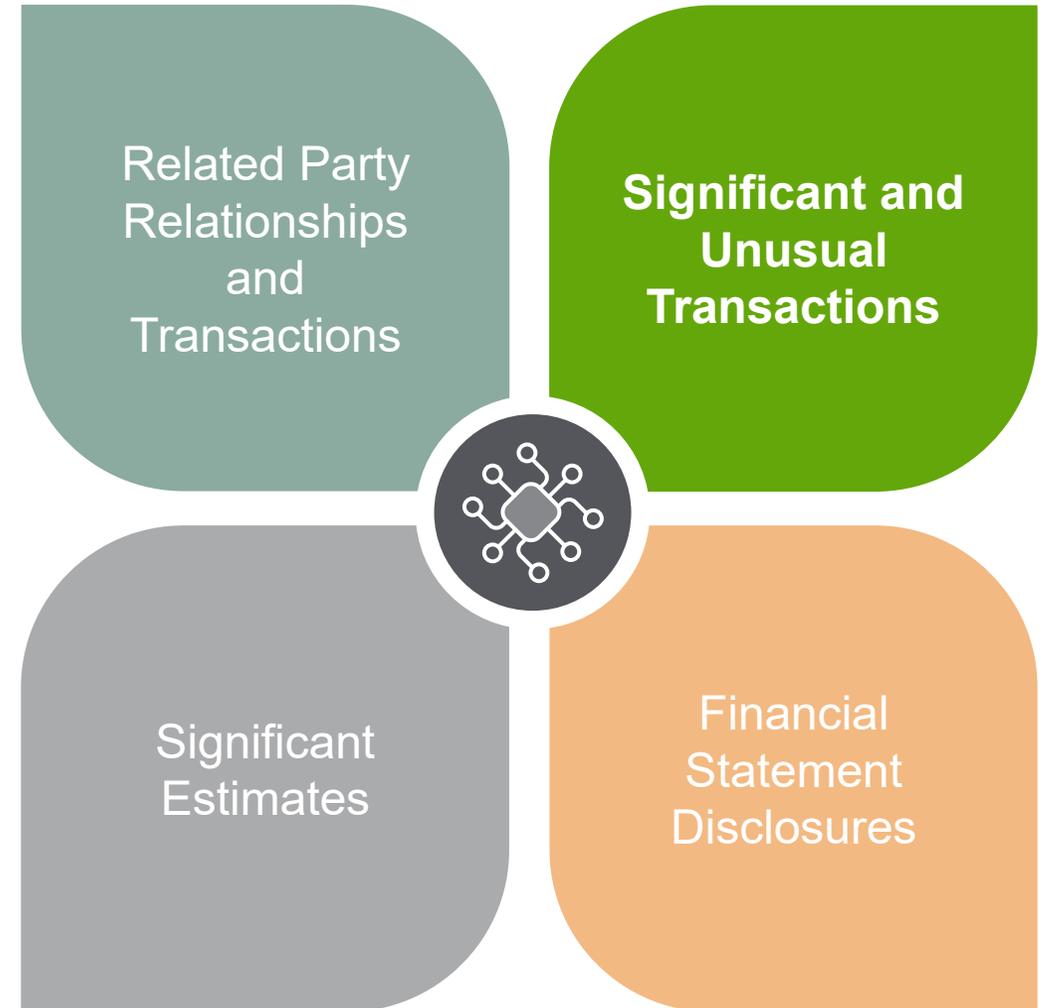
- Related parties or related party relationships or transactions that were previously undisclosed to us;
- Significant related party transactions that have not been approved in accordance with the City's policies or procedures or for which exceptions to the City's policies or procedures were granted;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

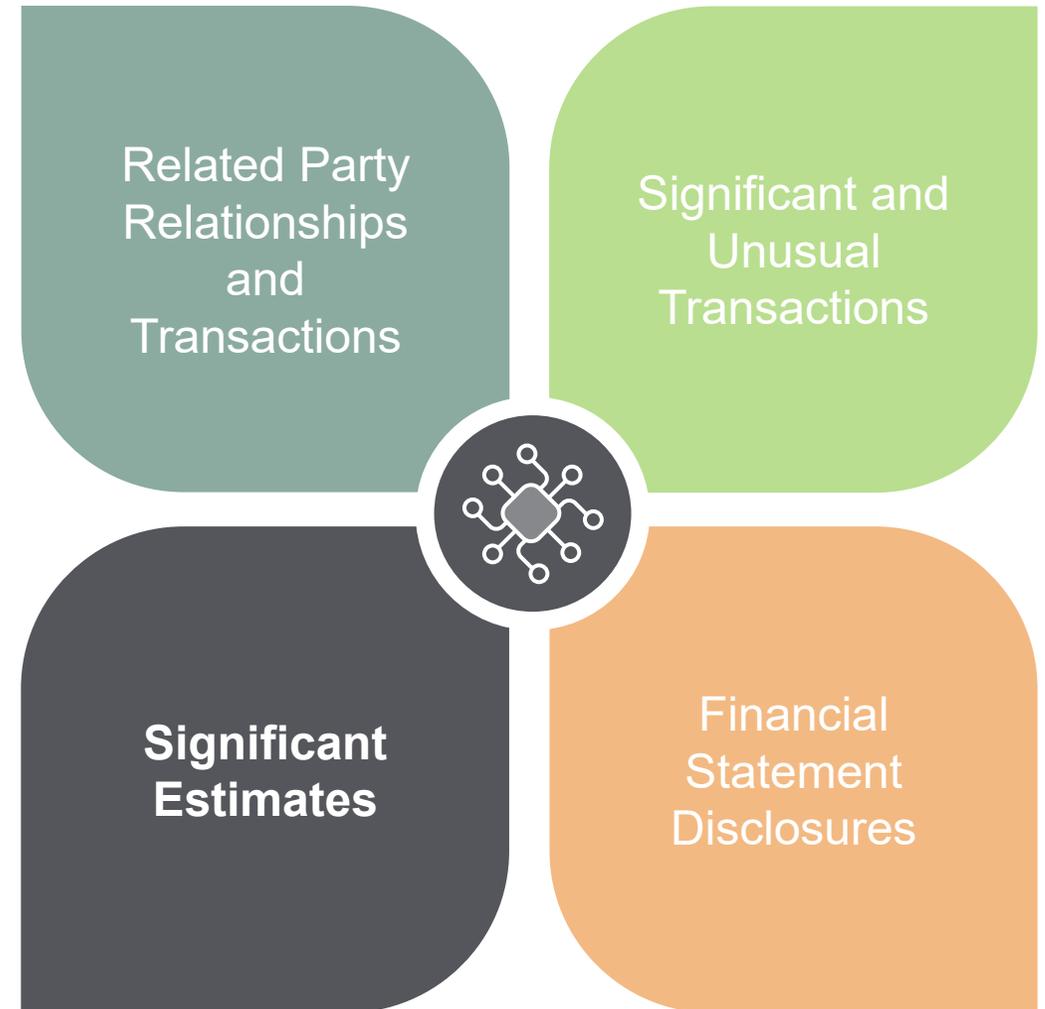
For purposes of this presentation, professional standards define significant unusual transactions as transactions that are outside the normal course of business for the City or that otherwise appear to be unusual due to their timing, size, or nature. We noted no significant unusual transactions during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

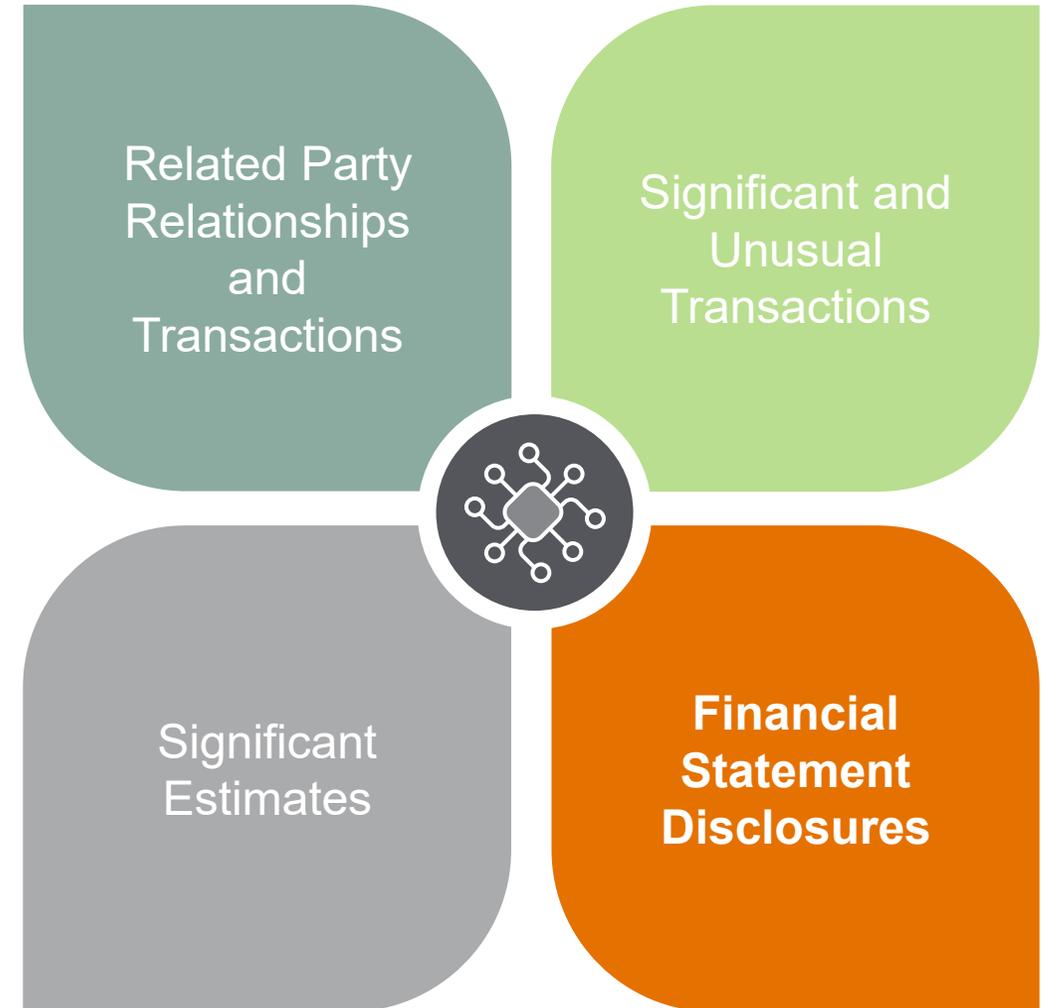
- Management's estimate of the net pension liability (LGERS) and total other postemployment benefit (OPEB) liability, incurred but not reported (IBNR) self-insurance liability and related deferred outflows and inflows are based on actuarial valuations by third parties.
- Management's estimate of compensated absences is based on pay rates and historical use of sick leave that is more likely than not to be used.



Qualitative Aspects of Accounting Practices

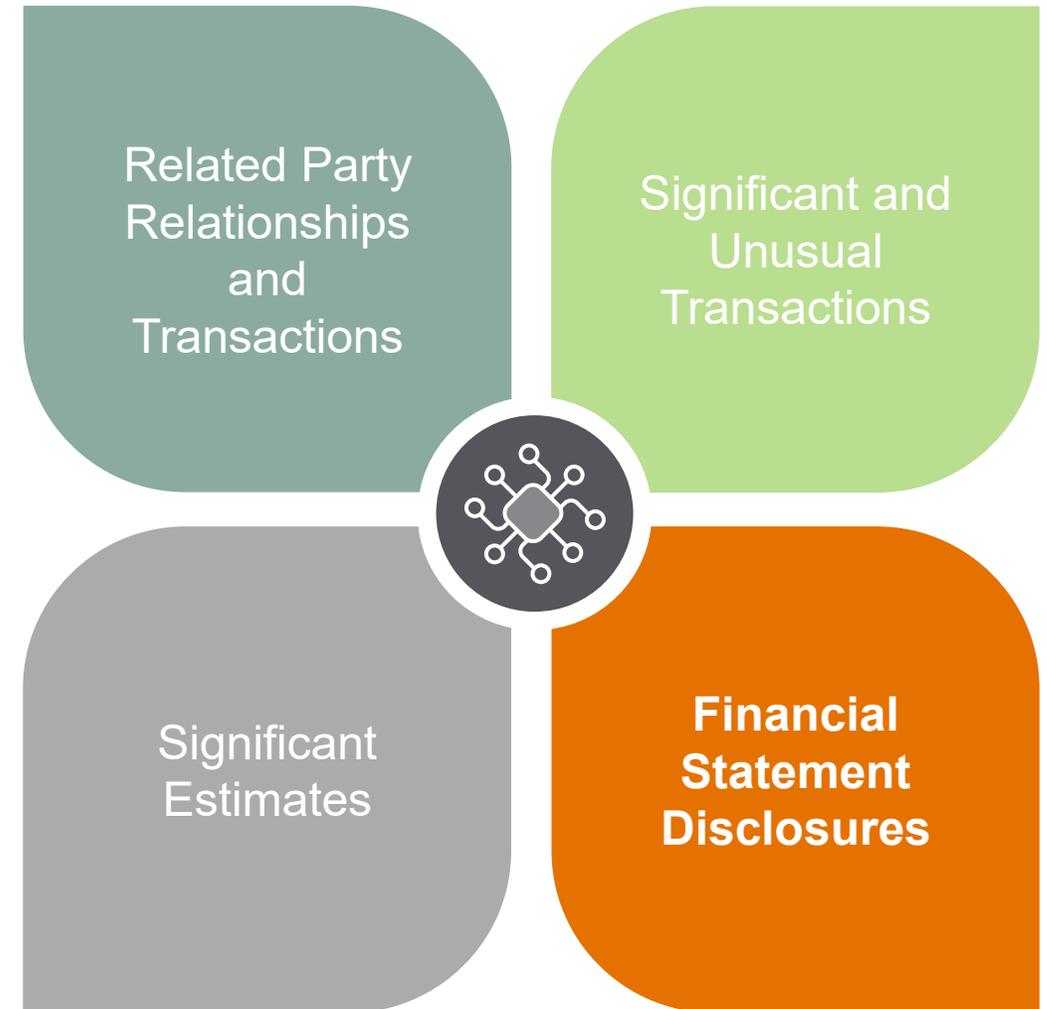
Management's estimate of the identified significant estimates are based on the analysis of actuarial valuations, historical trends, and personnel information.

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 implementation of GASB 101, Compensated Absences.
- ▶ Our firm's tax services will assist with New Charlotte Corporation tax returns.
- ▶ We will 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 performed.



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 December 23, 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.

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 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

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, 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 Organization's audited financial statements include an introductory and statistical section. 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 103 – Financial Reporting Model Improvements*
- ▶ *GASB 104 – Disclosure of Certain Capital Assets*



Local Government Commission Performance Indicators



Budgeted tax levy for 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.



No statutory violation with Annual Comprehensive Financial Report.



Questions

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