City of Asheville
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January 27, 2026

The City's external audit firm Cherry Bekaert, LLP presented the City's fiscal year 2025 audit to the Asheville City Council on December 9, 2025. During completion of this year's audit, Cherry Bekaert and the City Finance Department identified three items that require a response from the City as part of the Financial Performance Indicator of Concern (FPIC) program. The paragraphs below address each of these three FPIC items.

For the fiscal year ending June 30, 2025 Cherry Bekaert, LLP reported to City Council one material weakness in internal control. In performing their audit, Cherry Bekaert, LLP noted the City did not properly accrue for one invoice received subsequent to year end related to construction work completed during fiscal year 2025 in the general capital projects fund. As a result, the City's governmental activities capital assets and accounts payable, along with the general capital projects fund expenditures and accounts payable were understated by approximately $1,623,000. This misstatement was corrected by management. In response to this finding the City will add additional controls to its existing account payable accrual guidelines for year-end to ensure all invoices are properly identified. The City will also review its existing thresholds to ensure they are appropriate across all funds, and in future years the final accrual list will be reviewed and approved by the Assistant Finance Director.

The second FPIC item identified during the audit related to the decrease in total fund balance in the General Fund. As reported in the City's fiscal year 2025 audited financial statements, total fund balance in the General Fund decreased by $6.76 million. Although this decrease in total fund balance was less than the $7.75 million fund balance usage included in the adopted 2025 General Fund budget, staff had anticipated fund balance usage would be much less due to the better than budget performance that occurs in a typical year. However, Tropical Storm Helene had a significant negative impact on the City's General Fund revenue in fiscal year 2025, particularly on sales tax revenue. Consequently, total General Fund revenue, which usually exceeds budget, came in short of budget (97.6% of budget). Although the City does not anticipate General Fund revenue shortfalls in future fiscal years, City Council is aware that continued reliance on fund balance to support the General Fund budget is not financially sustainable. To reduce the likelihood of future fund balance decreases, City Council approved a property tax rate increase of 3.26 cents as part of the fiscal year 2026 budget, and other revenues were budgeted conservatively as the recovery from Helene continues.

The third and final FPIC item identified during the audit was the operating net income in the City's Water Resources Fund was negative for fiscal year 2025. This result was directly attributable to the impacts of Tropical Storm Helene. Damage to the water infrastructure from Helene resulted in the

loss of two months of customer revenue. In addition, the City's Water system incurred significant costs to repair the infrastructure. The City ultimately expects to receive FEMA (Federal Emergency Management Agency) reimbursement for these costs but this funding was not received during fiscal year 2025. Given the strong positive net income results that the City's Water system typically produces, we do not anticipate this to be a recurring FPIC fail.

In closing, we appreciate the work that the Department of State Treasurer and the Local Government Commission (LGC) perform and the vital role it plays in ensuring that local governments throughout the State maintain the highest level of financial standards and accountability. If you have any further questions about this Financial Performance Indicator of Concern discussed above please feel free to contact our CFO, Tony McDowell.

Asheville City Council:

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Dakisha R. Wesley, City Manager

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Tony McDowell, Finance Director/CFO