

2025 Annual Comprehensive Financial Report (ACFR), Independent Audit Results, and Presentation of Annual Financial Results

Town Manager's Transition

1. **North Carolina Office of the State Auditor** investigates alleged cases of fraud, waste, and abuse of taxpayer dollars.
2. **Womble Bond Dickinson**
 - Examination of procurement card usage and reimbursement, and expenditures of Town funds by the former town manager.
 - Examination of former town manager's reporting of Town finances to Town Council.
 - Review of work environment created by former town manager.
3. **The District Attorney** has called for a **North Carolina State Bureau of Investigation** to perform a criminal investigation.
4. **Cherry Bekaert** is Cary's external independent auditor that reviews financial statements for financial reporting and compliance related to federal funds and internal controls for Fiscal Year 2025.



Cary's external independent auditor that reviews financial statements for financial reporting and compliance related to federal funds and internal controls.

Town Manager's Transition

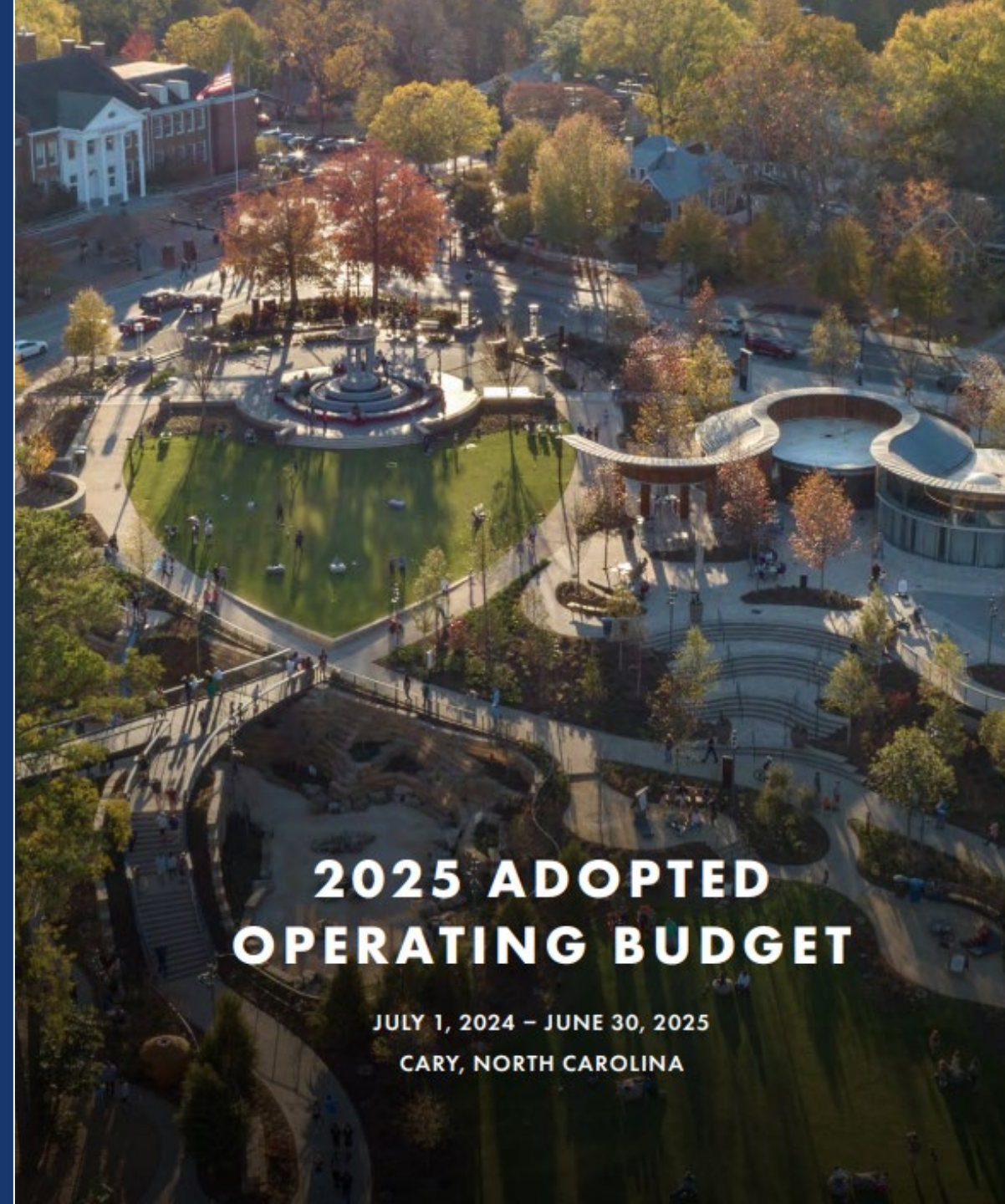
- Financial Reporting
- Compliance Related to Federal Funds
- Compliance Related to Internal Controls
- ADDITION: P-Card usage from July 1, 2024 through June 30, 2025

Annual Comprehensive Financial Report vs. Audit





2025 Annual Comprehensive Financial Report (ACFR), Independent Audit Results, and Presentation of Annual Financial Results



2025 ADOPTED OPERATING BUDGET

JULY 1, 2024 – JUNE 30, 2025

CARY, NORTH CAROLINA

TOWN OF CARY Audit Executive Summary

February 5, 2026

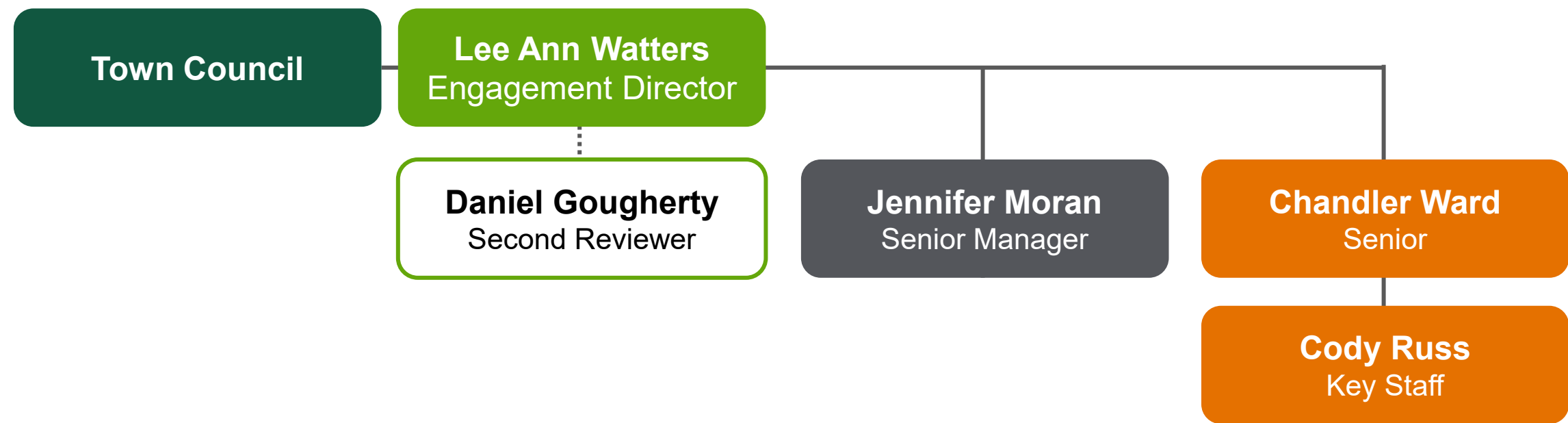
Agenda

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

This information is intended solely for the use of the Town Council charged with governance and, if appropriate, management of the Town of Cary and is not intended to be, and should not be, used by anyone other than these specified parties.



Client Service Team

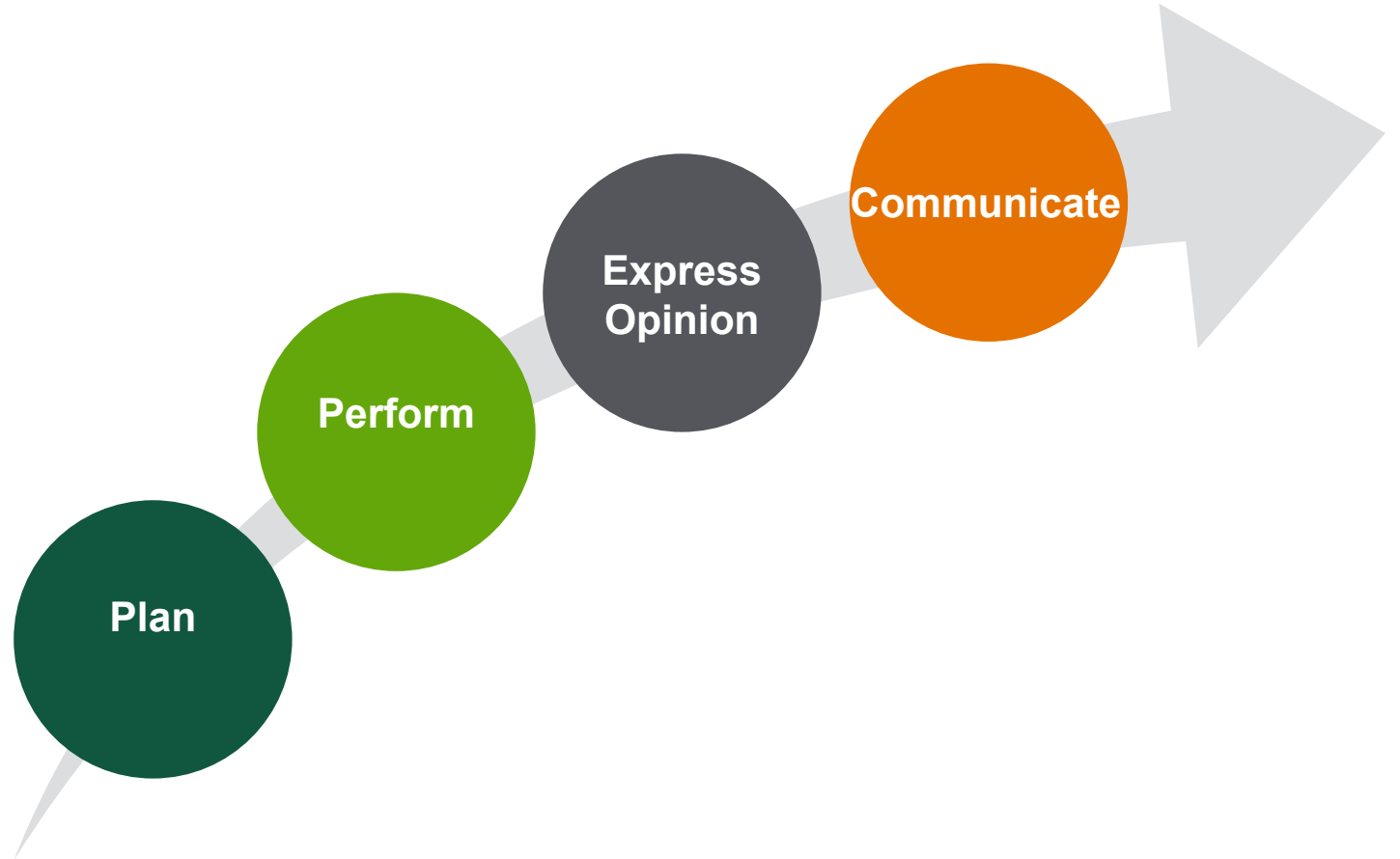


Results of the Audit

We have audited the financial statements of the Town of Cary (the “Town”) as of and for the year ended June 30, 2025, in accordance with generally accepted auditing standards and *Government Auditing Standards* and we will issue our report thereon dated as of the date the financial statements are available to be issued.

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

We anticipate issuing unmodified opinions on the financial statements and federal and state single audits.



Internal Control and Compliance

Single Audit (Grants)

Federal Major Programs

- Highway Planning and Construction (ALN 20.205)
- *Federal Transit Cluster*
- Federal Transit – Formula Grants (ALN 20.507)
- Bus and Bus Facilities Formal Program (ALN 20.526)

State Major Programs

- Powell Bill (DOT-4)

Verified
Compliance
with Grant
Agreements

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 Town’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town’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 Town'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 the following deficiencies that we believe to be material weaknesses.



Internal Control Communication

Material Weakness

2025-001 – Control Environment – Tone at the Top

Condition: During our audit, we were made aware of a situation by Mayor Weinbrecht and an employee of the Town that leads us to believe the Town had certain deficiencies regarding its control environment and more specifically the “tone at the top” set by the former town manager. Specifically:

- The former Town manager did not consistently model or reinforce expected ethical behavior.
- Messaging from the former Town manager did not always adequately communicate the importance of compliance, accountability, and internal control responsibilities.
- Employees perceived retaliation risks or lack of support when raising concerns, which discourages open reporting and impacts transparency.

Criteria: Committee on Sponsoring Organizations (“COSO”) Principle 1 requires management and the board establish and maintain a culture that demonstrates a commitment to integrity and ethical values. A strong “tone at the top” is foundational to a functioning internal control environment and influences all other aspects of internal control.

Cause:

- Insufficient prioritization by executive leadership of ethics, compliance, and accountability.
- Limited internal communications reinforcing expectations for ethical conduct and strong controls.

Effect: An ineffective control environment creates a reasonable possibility that errors, irregularities, or unethical behavior will not be prevented or detected in a timely manner. A weak culture and deficient tone at the top undermine other control components, increasing the risk of:

- Biased decision-making
- Pressure to override controls
- Failure to escalate issues
- Inaccurate or incomplete financial reporting
- Erosion of employee trust and accountability

Due to the pervasive nature of the control environment and the fundamental importance of culture in effective internal control over financial reporting (ICFR), we believe this issue constitutes a material weakness.

Recommendation: We recommend the Town periodically evaluate the control environment through surveys to evaluate employee perceptions of culture, leadership behavior and the effectiveness of internal controls. We further recommend that the Town strengthen reporting mechanisms and anti-retaliation protections



Internal Control Communication

Material Weakness

2025-002 – Financial Reporting

Condition: The following material misstatement was identified during our audit:

The Town did not record a grant receivable and related intergovernmental revenue in the amount of \$2,116,193 in Governmental Activities related to the Town's incurring grant expenses eligible for reimbursement. Accordingly, the Town did not recognize grants receivable and revenue in the amount of \$2,116,193 in the Capital Projects Fund.

Criteria: Entities are responsible for ensuring that appropriate internal controls over financial reporting and close processes are adequate to prevent and/or detect material errors in financial reporting in a timely manner and are operating effectively for all funds.

Effect: Governmental Activities accounts receivable and intergovernmental revenue were understated by \$2,116,193. Accounts receivable and revenue in the Capital Projects Fund were understated by the same amount.

Cause: The financial statement close process did not include a reconciliation of federal and state expenditures to intergovernmental funds receivable.

Recommendation: We recommend the Town enhance its financial close process to include a reconciliation of eligible grant expenses as reported on the Schedule of Expenditures of Federal and State Awards to intergovernmental revenue.



Internal Control Communication

Other Control Recommendations

We recommend the Town consider adopting the following “best practices” to strengthen transparency, accountability, and prudent stewardship of public resources:

Establish a Policy Governing Benefits Provided to Elected Officials

The Town should consider adopting a comprehensive policy that clearly outlines permissible benefits and entitlements for elected officials. This policy should address:

- Coverage Parameters – Define allowable expenses for conferences, training and Town business.
- Documentation Requirements – Specify requirements for invoices, receipts, and justification of the reasonable and business-related purpose of expenditures.
- Stipends and Allowances – Establish guidelines for car allowances, mobile phone expenses, technology stipends, and similar benefits.
- Tuition Reimbursement – Clarify whether tuition reimbursement is permitted for elected officials, under what conditions, and what prior approvals (if any) are required.
- Training Attendance Expectations - Set expectations for the types of training or educational activities that qualify as official business.

Adopting a policy of this nature would serve as a buffer between staff and elected officials when difficult decisions/advice need to be communicated.



Internal Control Communication

Other Control Recommendations

Develop a Policy Addressing Chamber InterCity Visits

The Town should consider establishing a policy to govern participation in Chamber InterCity trips to ensure transparency, accountability, and cost-effectiveness. Key elements of such a policy may include:

- Delegation Size Limits – Set a maximum number of participants to manage costs and ensure that attendance aligns with the trip's purpose.
- Financial Accountability – Clearly define which expenses (e.g., registration fees, airfare, meals) may be paid with public funds and identify allowable funding sources such as private sponsorships or taxpayer funds. Incorporating these trips into a transparent, dedicated budget line item would further enhance visibility.
- Purpose Alignment – Establish the official business purpose of InterCity trip and other similar travel related expenditures – such as economic development, housing initiatives, housing initiatives, or other strategic priorities and require participants to identify specific business goals and measurable outcomes expected to benefit the Town.



Internal Control Communication

Other Control Recommendations

Dollar Threshold for P-Card Lost Receipt Form

The Town should establish a defined dollar threshold above which employees will be required to reimburse the Town for any P-card transaction that lacks a valid supporting receipt. This threshold should balance reasonable administrative burden with the need for strong internal controls and may be aligned with thresholds used for other expense documentation requirements.

To reduce the frequency of lost receipts and improve record retention, the Town should adopt cloud-based digital tools for receipt capture and storage.



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

- ▶ An audit adjusting entry was identified, and subsequently posted by management, to recognize a grants receivable and related intergovernmental revenue in the amount of \$2,116,193 in Governmental Activities, related to the Town's incurring grant expenses eligible for reimbursement. Additionally, an adjusting journal entry was posted in the Capital Projects Fund to recognize a grants receivable and revenue in the amount of \$2,116,193.



Corrected and Uncorrected Misstatements

Uncorrected Misstatements

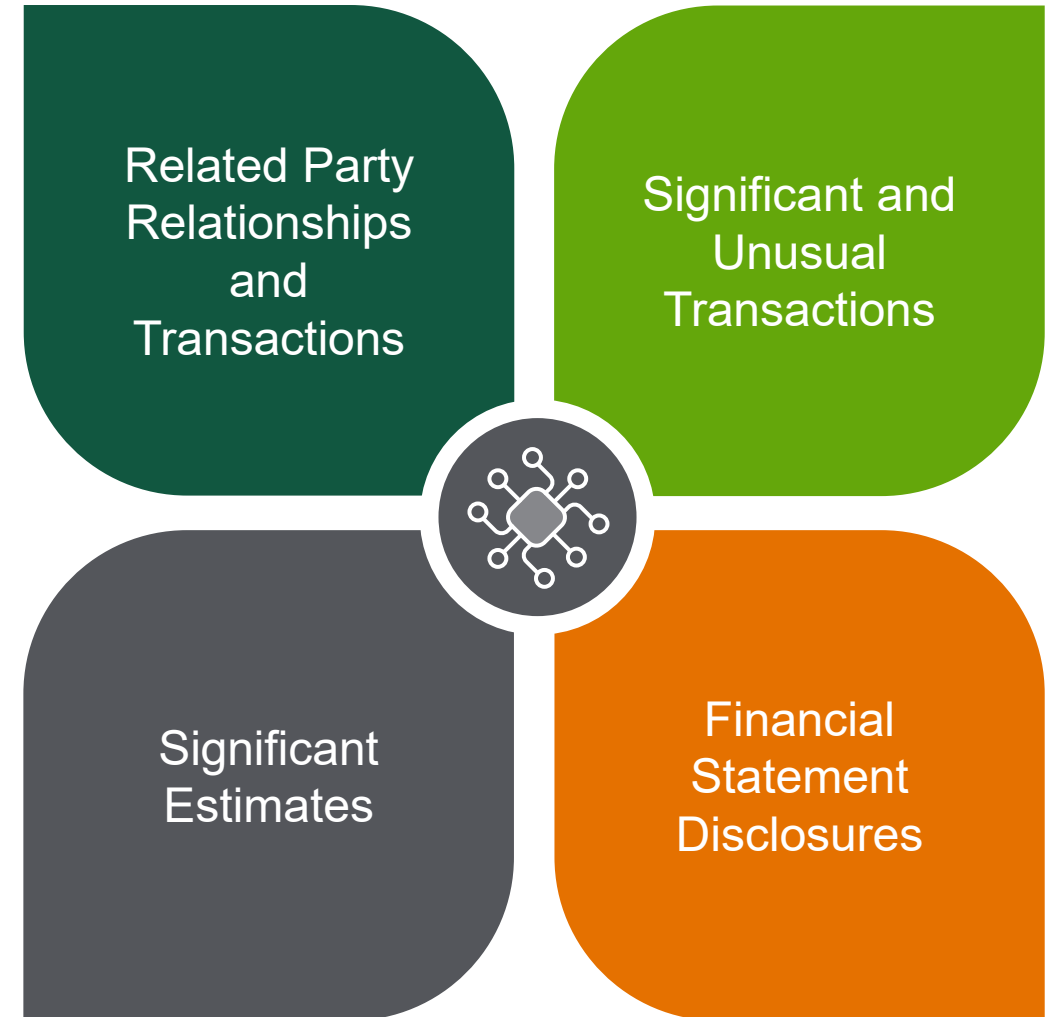
- ▶ There was one uncorrected misstatement to increase beginning net position, as previously stated in the Governmental Activities and increase compensated absences expense in the amount of \$1,145,807 related to the implementation of the Governmental Accounting Standards Board (“GASB”) 101, *Compensated Absences*. This adjustment, if posted, would not have an impact on Governmental Activities net position at June 30, 2025.



Qualitative Aspects of Accounting Practices

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

The Town implemented GASB 101, *Compensated Absences*, effective July 1, 2024. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

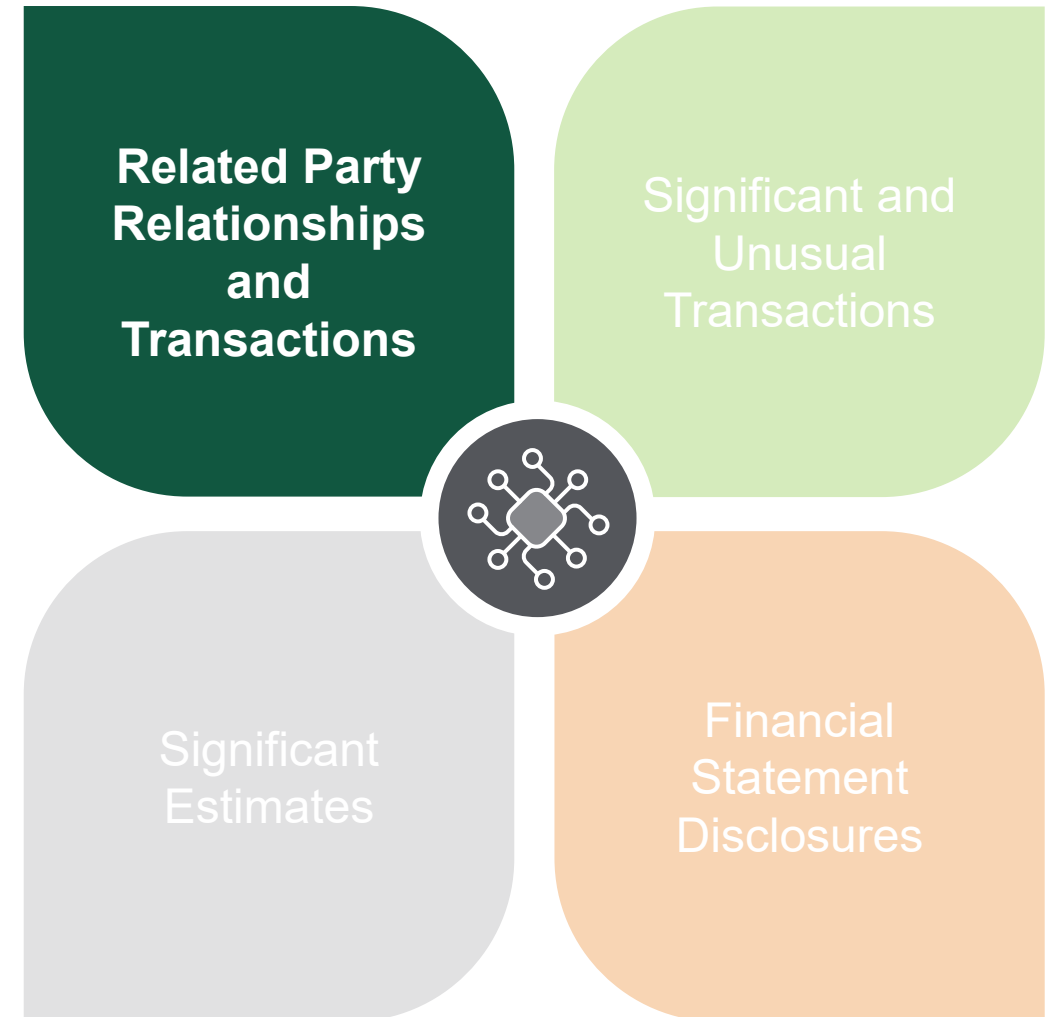


Qualitative Aspects of Accounting Practices

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

Understanding that certain issues have been discussed in our findings we noted no additional:

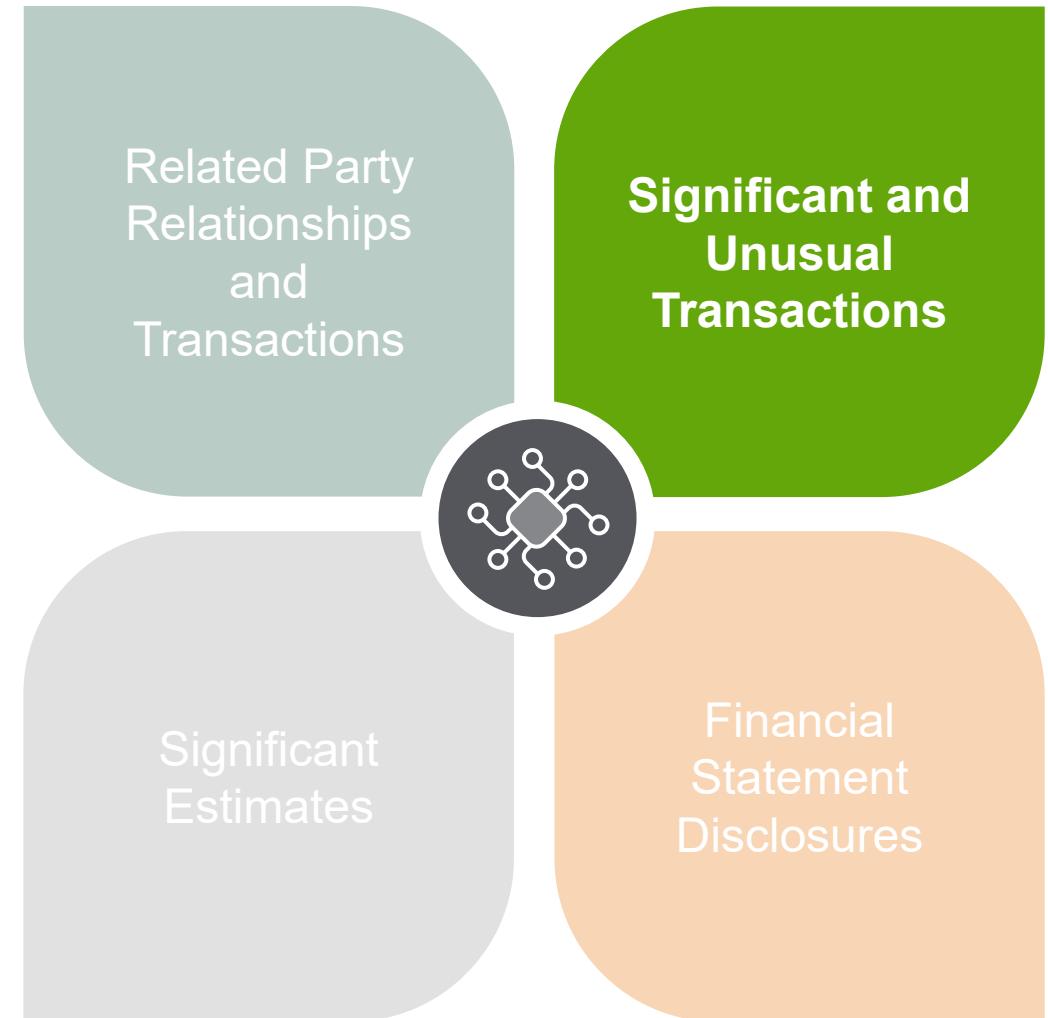
- Related parties or related party relationships or transactions that were previously undisclosed to us;
- Significant related party transactions that have not been approved in accordance with the Town's policies or procedures or for which exceptions to the Town's policies or procedures were granted;
- Significant related party transactions that appeared to lack a business purpose, except those noted in our internal control comments;
- 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 Town.



Qualitative Aspects of Accounting Practices

We noted no transactions entered into by the Town 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.

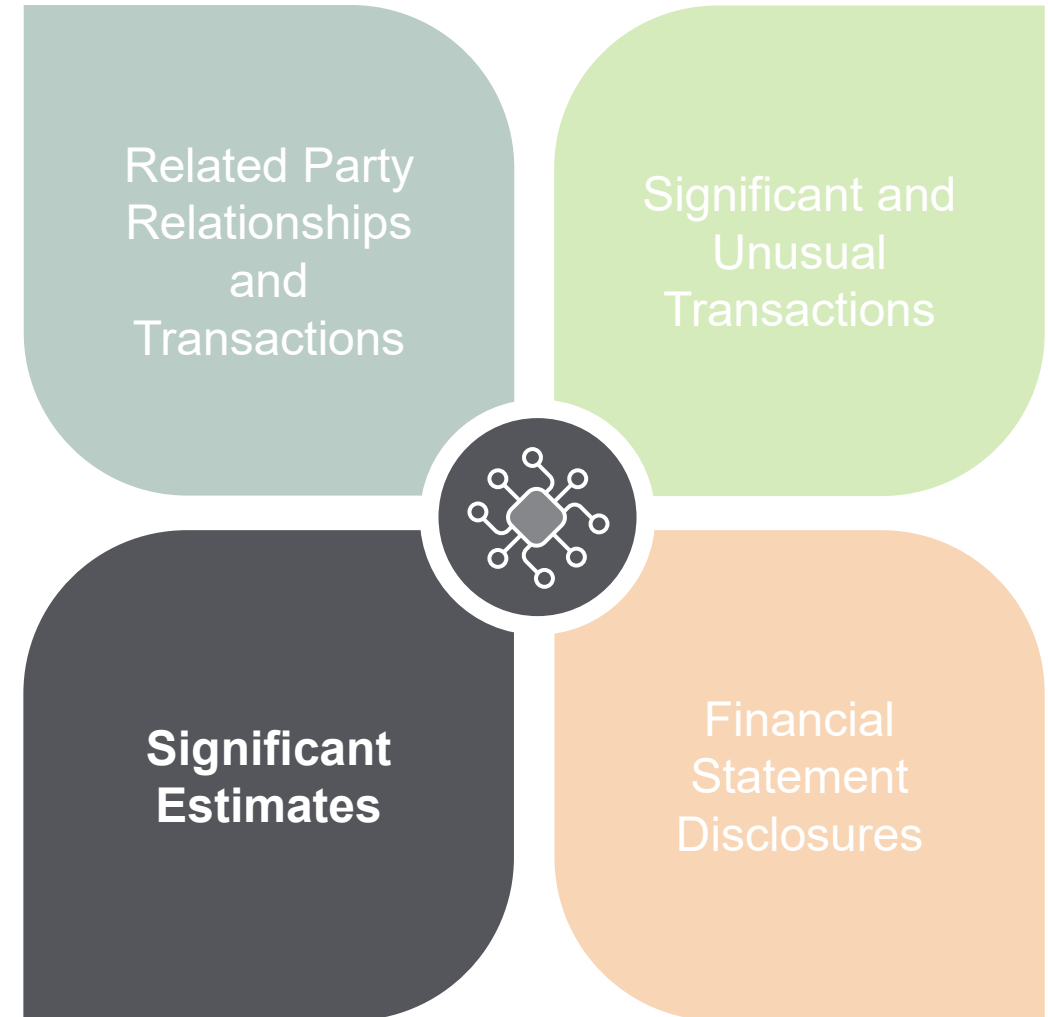
For purposes of this presentation, professional standards define significant unusual transactions as transactions that are outside the normal course of business for the Town or that otherwise appear to be unusual due to their timing, size, or nature. We noted no significant unusual transactions during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



Qualitative Aspects of Accounting Practices

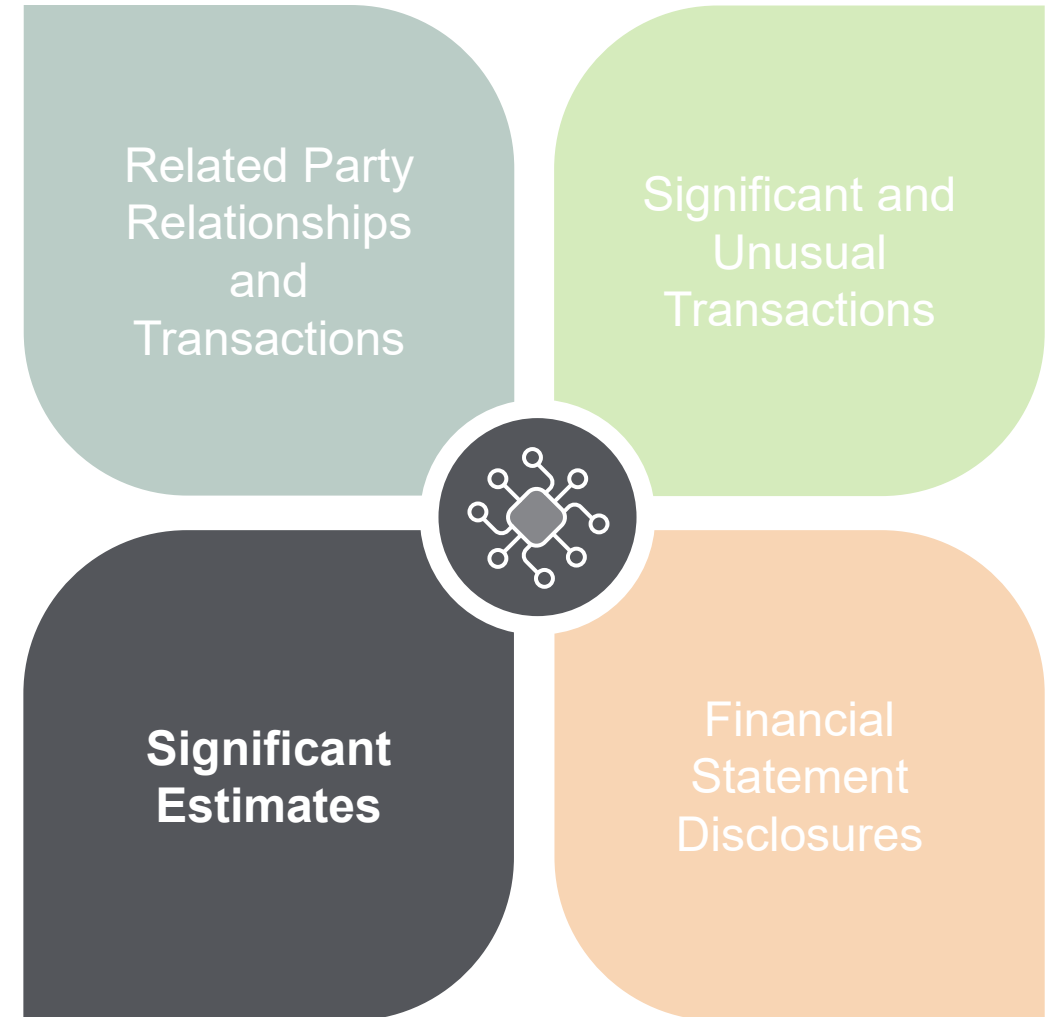
Accounting estimates are an integral part of the financial statements prepared by finance management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance 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
- Depreciable lives used for depreciation
- Incurred But Not Reported Claim liability for its self-insured plan
- Pension liabilities and related deferred outflows and inflows of resources
- Other post-employment benefits liability and related deferred outflows and inflows of resources



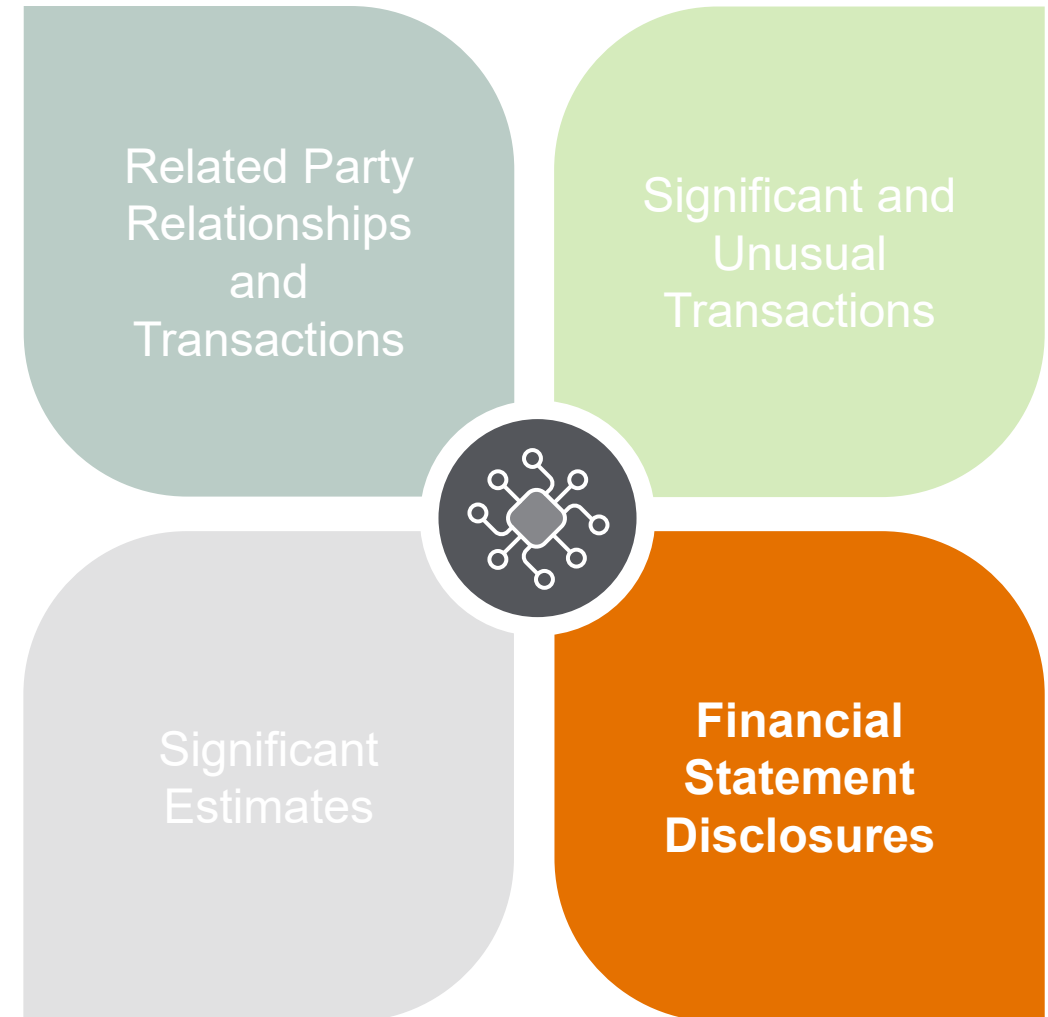
Qualitative Aspects of Accounting Practices

Management's estimate of the identified above estimates are based on the analysis of historical collection trends, current customer relations credit sales levels, industry factors, current and anticipated economic conditions, the category of individual capital assets, and the actuarial reports by independent third parties. 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

- ▶ We will complete the appropriate sections and sign 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 Town 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 will request certain representations from management that are included in the management representation letter dated as of the date the financial statements are available for release.



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

Management reported to us that check fraud in the amount of \$1,326,096.50 was perpetrated against the Town on or about April 2, 2025. Upon being made aware of the incident the Town reported the incident to the police and to its financial institution. The Town did not suffer financial loss as a result of this incident as the financial institution credited the Town's account for the amount of the fraudulent check. Additionally, Mayor Weinbrecht reported to us potential misuse of Town funds by the former Town Manager. We will report a material weakness related to strengthening the Town's control environment, specifically, the tone at the top. Related to this matter, the North Carolina Office of the State Auditor and Wake County District Attorney have initiated separate investigations of these activities. Additionally, the Town has initiated an inquiry of these activities.

Going Concern

No events or conditions noted that indicate substantial doubt about the Town'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

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 Town in the upcoming years and may have a significant impact on the Town's financial reporting.

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

Additionally, related to the current year financial statements, management will provide a response for the material weaknesses previously identified.

- ▶ GASB 103 – *Financial Reporting Model Improvements*
- ▶ GASB 104 – *Disclosure of Certain Capital Assets*
- ▶ GASB 105 – *Subsequent Events*



Questions

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FY 2025 Year-End Report



Key Takeaways for FY25 Year End

- Strong Financial Position
- Year End Fund Balance exceeds Policy
- Consistent Utility Results
- Positioned to advance in Financial Management

Annual Comprehensive Financial Report

- Introductory Section
- Financial Section
- Statistical Section
- Compliance Section

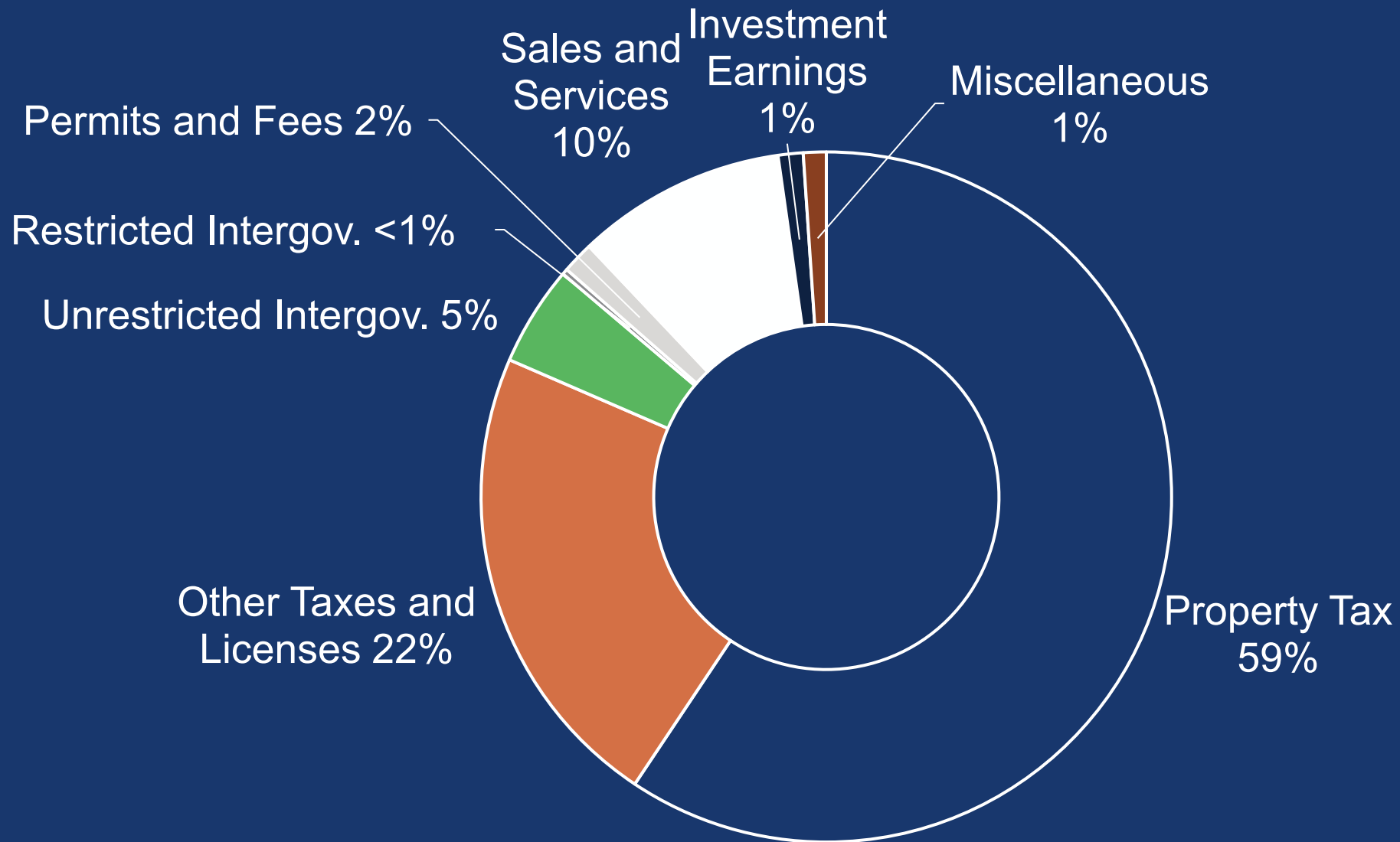




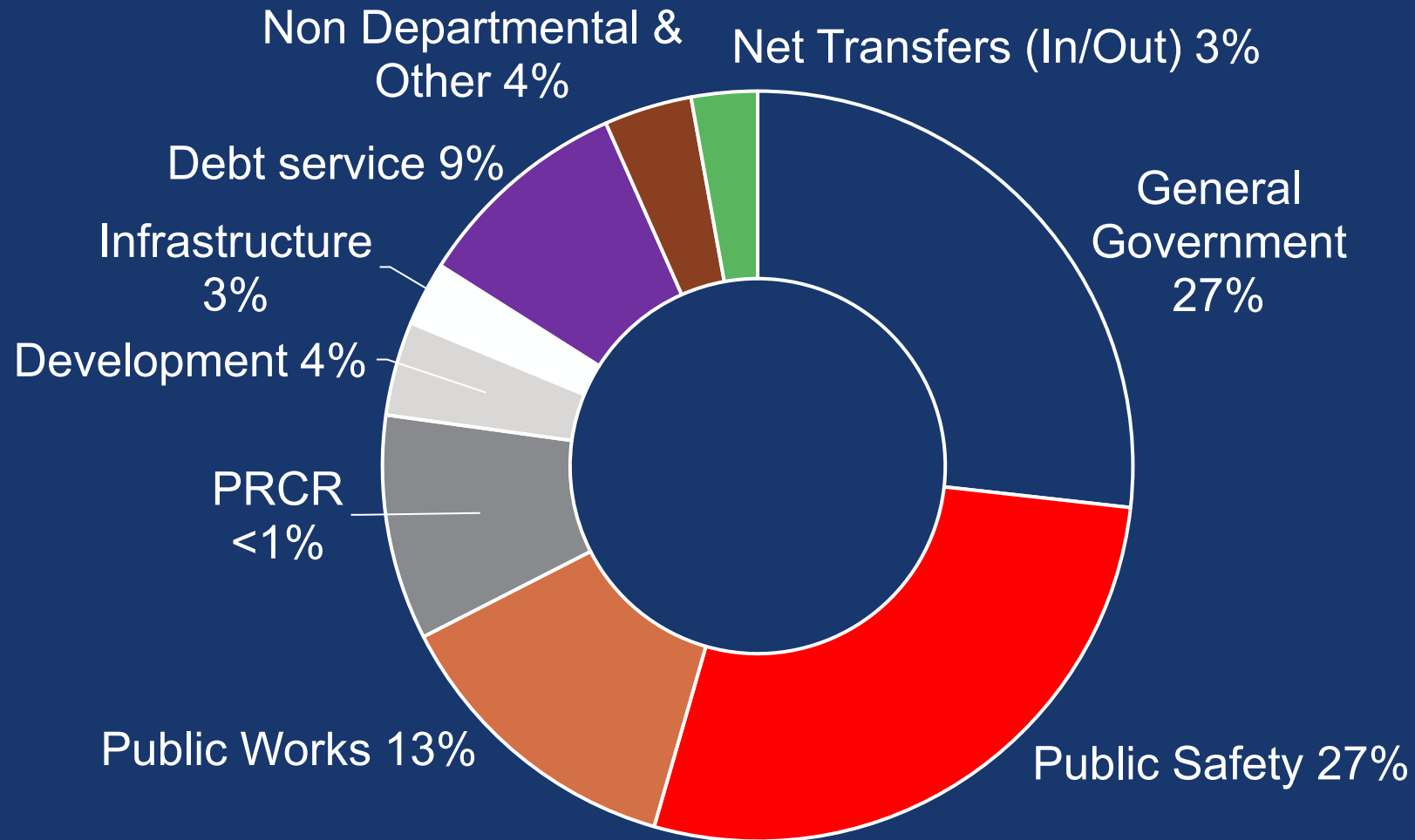
FY 2025 Financial Drivers

- Property Tax Revaluation
- Flat Sales Tax Growth
- Close Monitoring of Budget Line Items
- Timely Closure of Capital Projects

General Fund – Revenue





General Fund – Expense





FY 2025 Net Results

Millions	Revenues	\$ 281,870,187
	Expenditures	266,079,840
	Operating Net	<u>\$ 15,790,347</u>
	Non-Operating Sources	7,791,585
	Total	<u>\$ 23,581,932</u>

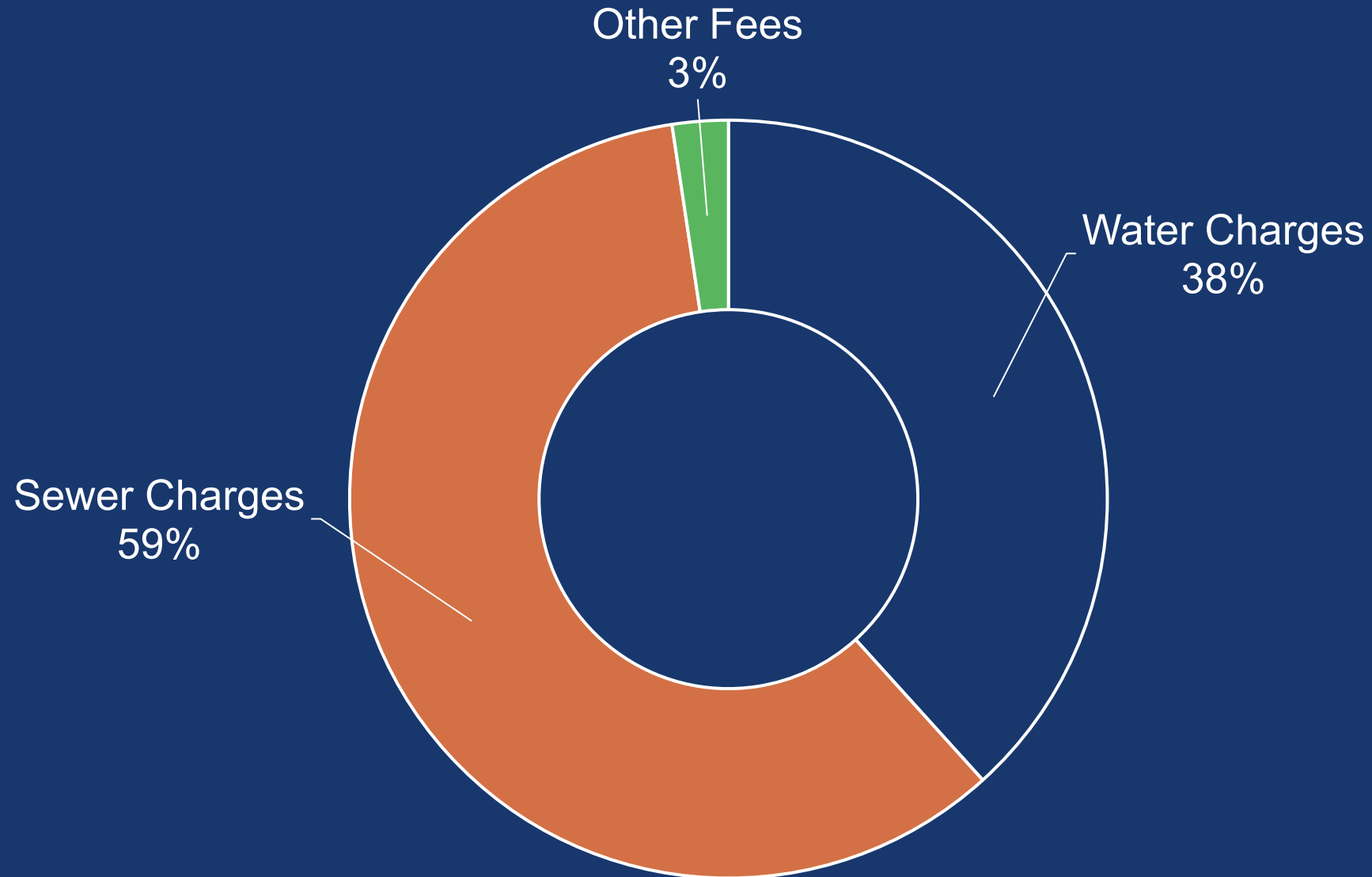
General Fund Metrics

Metric	Value
Revenue	>100% of Budget
Total Revenue Growth	 20%
Property Tax Revenue	<ul style="list-style-type: none">■ Largest Revenue Source – 59%■ 99.9% Collected
Sales Tax Revenue	<ul style="list-style-type: none">■ 2nd Largest Revenue Source – 21%■  1%

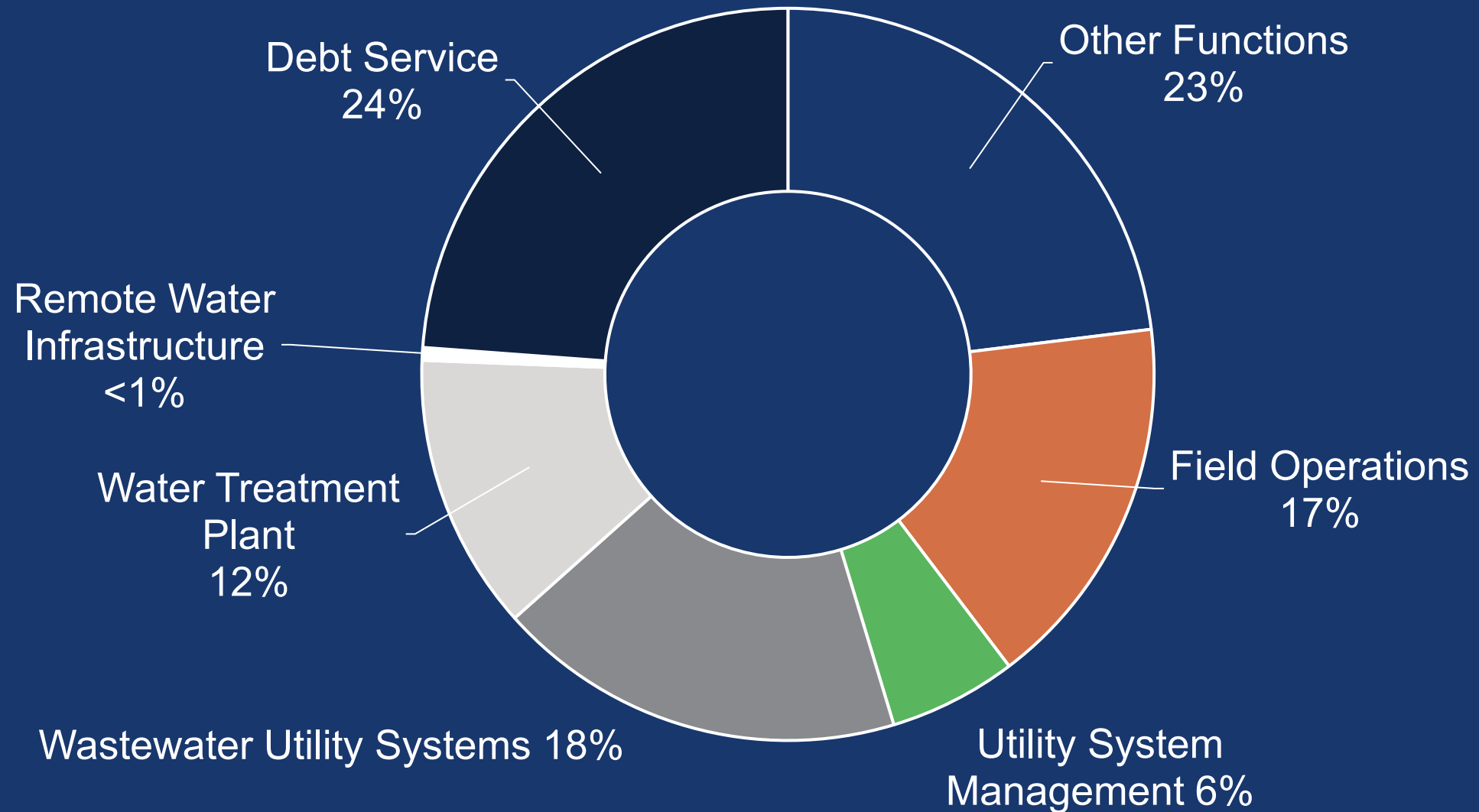
General Fund Metrics

Metric	Value
Total Expenditure Growth	 1%
Total Fund Balance	<ul style="list-style-type: none">■ \$106 Million■  \$23.6 Million

Utility Fund – Revenue



Utility Fund – Expenses



Key Takeaways for FY25 Year End

- Strong Financial Position
- Year End Fund Balance exceeds Policy
- Consistent Utility Results
- Positioned to advance in Financial Management



Next Steps

- FY 2025 Annual Comprehensive Financial Report (ACFR).
Submission to Local Government Commission (LGC) by Feb. 12
- FY 2025 Popular Annual Financial Report (PAFR)
- Submission to Government Finance Officers Association (GFOA) for Reporting Awards