CITY OF ASHEVILLE, NORTH CAROLINA

REPORT TO THE CITY COUNCIL

NOVEMBER 9, 2022

November 9, 2022

To the Members of City Council
City of Asheville, North Carolina

Attention Ms. Esther Manheimer, Mayor

We are pleased to present this report related to our audit of the basic financial statements of City of Asheville, North Carolina (the City) as of and for the year ended June 30, 2022. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City's financial reporting process.

This report is intended solely for the information and use of the members of City Council and is not intended to be, and should not be, used by anyone other than this specified party. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the City.

PBMares, LLP

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REQUIRED COMMUNICATIONS

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Our Responsibilities With Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated April 18, 2022. Our audit of the basic financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication dated April 18, 2022 regarding the planned scope and timing of our audit and identified significant risks.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices
Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies
Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. The City adopted GASB Statement No. 87, "Leases," during the year. The objective of this statement is to better meet the information needs of financial statement users by improving the accounting and financial reporting for leases.

Significant or Unusual Transactions
We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management's Judgments and Accounting Estimates
Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.

Audit Adjustments and Uncorrected Misstatements

Audit adjustments, other than those that are clearly trivial, proposed by us and recorded by the City are shown in the attached list of Recorded Audit Adjustments.

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Observations About the Audit Process

Disagreements With Management
We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the basic financial statements.

Consultations With Other Accountants
We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed With Management
No significant issues arising from the audit were discussed or the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit
We did not encounter any significant difficulties in dealing with management during the audit.

Internal Control Matters

We have separately communicated the deficiencies in internal control over financial reporting identified during our audit of the basic financial statements and major awards, as required by *Government Auditing Standards* (GAS) and *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* at 2 CFR 200 (Uniform Guidance). Other internal control matters not required to be reported by GAS have been communicated to management and are attached as Exhibit A.

Significant Written Communications Between Management and Our Firm

Copies of significant written communications between our firm and the management of the City, including the representation letter provided to us by management, are attached as Exhibit B.

Performance Indicators

The North Carolina Local Government Commission (LGC) requires certain key performance indicators be communicated to those charged with governance and these indicators are attached as Exhibit C. In the event a performance indicator does not meet the LGC's minimum metrics, the City Council will be required to provide a formal action plan in writing to the LGC within 45 days of the receipt of this document.

For the year ended June 30, 2022, the City of Asheville did have one performance indicator that requires communication to the LGC by the City Council.

SIGNIFICANT ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following summarizes the significant accounting estimates reflected in the City's June 30, 2021 basic financial statements.

Allowance for Doubtful Accounts Receivable

Accounting policy	A reserve is established to write-down the receivable balance to its net realizable value.
Management's estimation process	The City calculates its allowance for doubtful accounts based on an average of historical collection percentages and a review of the debtor's ability to pay.
Basis for our conclusion on the reasonableness of the estimate	Based on the audit procedures performed we believe that management has utilized a reasonable process for its estimate in accordance with accounting principles generally accepted in the United States.

Fair Value of Investments

Accounting policy	Investments are recorded at fair value based on the level hierarchy standards.
Management's estimation process	Management utilizes the values provided by the investment custodians to estimate fair value.
Basis for our conclusion on the reasonableness of the estimate	Based on the audit procedures performed, we believe that management has utilized a reasonable process to estimate the fair value of investments.

Amortization of Bond Premiums and Issuance Costs

Accounting policy	Premiums and Issuance Costs are deferred and recognized over the life of the correlating debt.
Management's estimation process	Management records new premiums at actual and amortizes premiums and previously recorded issuance costs over the life of the correlating debt.
Basis for our conclusion on the reasonableness of the estimate	Based on the audit procedures performed, we believe that management has utilized a reasonable process to estimate the amortization period.

Capital Asset Depreciable Lives

Accounting policy	Assets are assigned lives from 5 to 50 years based on the type of asset.
Management's estimation process	Lives are assigned based on other like-kind assets and historical usage.
Basis for our conclusion on the reasonableness of the estimate	Based on the audit procedures performed, we believe that management has utilized a reasonable process to estimate the useful lives.

Other Post-Employment Benefit Liability

Accounting policy	A liability is recorded for the unfunded portion of promised benefits for past services.
Management's estimation process	The City contracted with an actuarial specialist to calculate the future service obligation, required annual contribution, net liability and related deferred inflows and outflows of resources. .
Basis for our conclusion on the reasonableness of the estimate	The liability is materially consistent with the City's policy and follows the requirements of GASB 75. We reviewed the assumptions used and noted they were reasonable and consistently applied.

LGERS Pension Liability

Accounting policy	A net pension liability is recorded for the unfunded portion of promised benefits for past services.
Management's estimation process	The State of North Carolina provides the City with an actuarially calculated future service obligation, required annual contribution, net pension liability and related deferred inflows and outflows of resources.
Basis for our conclusion on the reasonableness of the estimate	The liability is materially consistent with the City's policy and follows the requirements of GASB 68. We reviewed the assumptions used and noted they were reasonable and consistently applied.

LEOSSA Pension Liability

Accounting policy	A total pension liability is recorded for the promised benefits of past service.
Management's estimation process	The City contracts an actuary to calculate the total pension liability and related deferred inflows and outflows of resources.
Basis for our conclusion on the reasonableness of the estimate	The liability is materially consistent with the City's policy and follows the requirements of GASB 73. We reviewed the assumptions used and noted they were reasonable and consistently applied.

Unbilled Water/Sewer Revenues

Accounting policy	Revenues are billed in the period in which the product or service was provided.
Management's estimation process	Management utilizes the actual billed revenue subsequent year end and applies the percentage related to the previous fiscal year.
Basis for our conclusion on the reasonableness of the estimate	Based on the audit procedures performed, we believe that management has utilized a reasonable process to estimate the unbilled revenues.

Compensated Absences

Accounting policy	The City records a liability for earned vacation and compensatory time.
Management's estimation process	Management calculates a liability by using current pay rates and time accumulated by employees.
Basis for our conclusion on the reasonableness of the estimate	The City's estimation process is consistent with GAAP based on our audit procedures performed in this area.

Insurance Claims Incurred but not Reported (IBNR)

Accounting policy	Accrued as a liability in the government-wide statements and the Internal Service Fund.
Management's estimation process	Actuarial calculation from third party administrator based on inputs from historical experience.
Basis for our conclusion on the reasonableness of the estimate	Estimation process is consistent with accounting policy and in accordance with GAAP based on our audit procedures performed in this area.

Leases

Accounting policy	The City records a liability and an asset (expense leases) or a receivable and deferred inflow (revenue leases) as a result of GASB 87.
Management's estimation process	The lease liability or receivable is measured at discount rates ranging from 0.5% to 2.6% based on the City's imputed borrowing rate. Assets recorded at the present value of the future minimum lease payments as of their date of inception.
Basis for our conclusion on the reasonableness of the estimate	Estimation process is consistent with accounting policy and in accordance with GAAP based on our audit procedures performed in this area.

RECORDED AUDIT ADJUSTMENTS

Management corrected the following material misstatements that were identified as a result of our audit procedures.

Governmental Activities Description	Effect - Increase (Decrease) Assets	Liabilities	Net Position	Revenue	Expense
To correct property tax receivable	$ (105,458)	$ -	$ -	$ 105,458	$ -
Change in net position effect			105,458	$ 105,458	$ -
Statement of net position effect	$ (105,458)	$ -	$ 105,458		

General Fund Description	Effect - Increase (Decrease) Assets	Liabilities	Fund Balance	Revenue	Expenditure
To correct property tax receivable	$ (105,458)	$ 105,458	$ -	$ -	$ -
Change in net position effect			-	$ -	$ -
Balance sheet effect	$ (105,458)	$ 105,458	$ -		

Business-Type Activities Description	Effect - Increase (Decrease) Assets	Liabilities	Net Position	Revenue	Expense
To correct accrued interest	$ -	$ 149,281	$ -	$ -	$ 149,281
To adjust water construction in process for additions that were counted twice	(677,025)	-	-	-	677,025
Change in net position effect			(826,306)	$ -	$ 826,306
Statement of net position effect	$ (677,025)	$ 149,281	$ (826,306)		

Water Resources Fund Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Net Position	Revenue	Expense
To correct accrued interest	$ -	$ 149,281	$ -	$ -	$ 149,281
To adjust water construction in process for additions that were counted twice	(677,025)	(677,025)	-	-	677,025
Change in net position effect			(826,306)	$ -	$ 826,306
Statement of net position effect	$ (677,025)	$ (527,744)	$ (826,306)		

EXHIBIT A

Internal Control Matters

November 9, 2022

To Management and Members of City Council
City of Asheville, North Carolina

Attention: Tony McDowell, Finance Director

In planning and performing our audit of the financial statements of the City of Asheville, North Carolina (the City) as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the City's 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, 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.

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. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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.

Certain deficiencies in internal control that have been previously communicated to you, in writing, by us or by others within your organization are not repeated herein.

Following are descriptions of other identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses:

Accrued Interest Calculation

During our testing of debt and related balances, we noted that accrued interest and interest expense was understated in the Water Resources Fund as a result of an incorrect calculation. We recommend performing additional reviews of the supporting calculation schedules for accuracy before recording the year-end adjustments.

Taxes Receivable

During our testing of property taxes, we noted that property taxes receivable and related deferred revenues were overstated as a result of an incorrect calculation on a subschedule. We recommend performing additional reviews of the supporting calculation schedules for accuracy before recording the year-end adjustments.

This communication is intended solely for the information and use of management, City Council, others within the organization and the State of North Carolina's Local Government Commission, and is not intended to be, and should not be, used by anyone other than these specified parties.

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EXHIBIT B

Significant Written Communications Between Management and Our Firm

Bank Compliance Letter

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INDEPENDENT AUDITOR'S REPORT

To Management and Members of City Council
City of Asheville, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the budgetary comparison of the general fund of the City of Asheville, North Carolina (the City) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November xx, 2022.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Asheville, North Carolina failed to comply with the terms, covenants, provisions or conditions of Section 6.5, inclusive, of the General Trust Indenture dated November 1, 2017, with the Bank of New York Mellon Trustee Company, N.A. as trustee, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters might have come to our attention regarding the City's noncompliance with the above-referenced terms, covenants, provisions or conditions of the General Trust Indenture, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the members of City Council and management of the City of Asheville, North Carolina, the Local Government Commission of North Carolina and the Bank of New York Mellon Trustee Company, N.A. and is not intended to be and should not be used by anyone other than these specified parties.

PBMares, LLP

Morehead City, North Carolina
November 9, 2022

Representation Letter

THE CITY OF ASHEVILLE

November 9, 2022

PBMares, LLP
3621 John Platt Dr.
Morehead City, NC 28557

This representation letter is provided in connection with your audit of the basic financial statements of Asheville, North Carolina (the City) as of and for the year ended June 30, 2022 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of November 9, 2022:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated April 18, 2022, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.

2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

4. The methods, data, and significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement, or disclosure that is reasonable in the context of U.S. GAAP, and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.

5. Related-party transactions have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Types of related party transactions engaged in by the City include:

    a. Those with component units for which the City is accountable.

    b. Those with other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

    c. Those with jointly governed organizations in which the City participates.

6. The financial statements properly classify all funds and activities in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as amended.

7. The City is following either its established accounting policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available or is following paragraph 18 of GASB Statement No. 54 to determine the fund balance classifications for financial reporting purposes.

8. The financial statements include all fiduciary activities required by GASB Statement No. 84, *Fiduciary Activities*, as amended.

9. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.

10. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

11. Management has followed applicable laws and regulations in adopting, approving and amending budgets.

12. Risk disclosures associated with deposit and investment securities and derivative transactions are presented in accordance with GASB requirements.

13. Provisions for uncollectible receivables have been properly identified and recorded.

14. Capital assets, including infrastructure, intangible assets, and right of use assets are properly capitalized, reported and, if applicable, depreciated.

15. The government has properly separated information in debt disclosures related to direct borrowings and direct placements of debt from other debt and disclosed any unused lines of credit, collateral pledged to secure debt, terms in the debt agreements related to significant default or termination events with finance-related consequences and significant subjective acceleration clauses in accordance with GASB Statement No. 88.

16. Components of net position (net investment in capital assets, restricted, and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.

17. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

18. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

19. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

20. The City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and appropriately disclosed and that net position is properly recognized under the policy.

21. The government has no tax abatements required to be disclosed by GASB Statement No. 77.

22. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private, or to special assessment bond holders that is not disclosed in the financial statements.

23. We agree with the findings of the actuarial specialist as it relates to the valuation of the City's share of the Local Government Employees' Retirement System, the Law Enforcement Officers' Special Separation Allowance, and the Other Post Employment Benefit liabilities and have appropriately recorded and allocated those liabilities amongst the funds that are responsible for liquidating those liabilities.

24. We believe the implementation of GASB Statement No. 87, *Leases*, is appropriate.

25. We have no knowledge of any uncorrected misstatements.

Information Provided

26. We have provided you with:

    d. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;

    e. Additional information that you have requested from us for the purpose of the audit;

    f. Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence; and

    g. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

27. All transactions have been recorded in the accounting records and are reflected in the basic financial statements.

28. We have disclosed to you the results of our assessment of risk that the basic financial statements may be materially misstated as a result of fraud.

29. It is our responsibility to establish and maintain internal control over financial reporting. One of the components of an entity's system of internal control is risk assessment. We hereby represent that our risk assessment process includes identification and assessment of risks of material misstatement due to fraud. We have shared with you our fraud risk assessment, including a description of the risks, our assessment of the magnitude and likelihood of misstatements arising from those risks, and the controls that we have designed and implemented in response to those risks.

30. We have no knowledge of allegations of fraud or suspected fraud affecting the City's basic financial statements involving:

    a. Management.

    b. Employees who have significant roles in internal control.

c. Others where the fraud could have a material effect on the financial statements.

31. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's basic financial statements received in communications from employees, former employees, analysts, regulators, or others.

32. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations.

33. We have disclosed to you all known actual or potential pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.

34. We have disclosed to you the identity of the City's related parties and all the related-party relationships and transactions of which we are aware.

35. We have informed you of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the City's ability to record, process, summarize and report financial data.

36. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

37. We agree with the findings of specialists in evaluating the assertions found in Note 9, Pension Plan Obligations, and we have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

38. We believe that the actuarial assumptions and methods used by the actuary for funding purposes and for determining accumulated Plan benefits are appropriate in the circumstances. We did not give instructions, or cause any instructions to be given, to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the Plan's actuary.

39. We believe that the information obtained from the audited financial statements of and other participant information provided by the Local Governmental Employees' Retirement System is appropriate in the circumstances. We did not give instructions, or cause any instructions to be given, to the Plan or its auditor in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the Plan or its auditor.

Supplementary Information

40. With respect to supplementary information presented in relation to the financial statements as a whole:

    a. We acknowledge our responsibility for the presentation of such information.

    b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.

    c. The methods of measurement or presentation have not changed from those used in the prior period.

d. There are no underlying significant assumptions or interpretations regarding the measurement or presentation of such information.

e. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.

41. With respect to management's discussion and analysis and the schedules of funding progress and contributions presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:

    a. We acknowledge our responsibility for the presentation of such required supplementary information.

    b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.

    c. The methods of measurement or presentation have not changed from those used in the prior period.

    d. There are no underlying significant assumptions or interpretations regarding the measurement or presentation of such information outside the assumptions and interpretations used in the presentation of the financial statements.

Compliance Considerations

In connection with your audit conducted in accordance with *Government Auditing Standards*, we confirm that management:

42. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.

43. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the auditee.

44. Is not aware of any instances that have occurred, or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

45. Is not aware of any instances that have occurred, or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts.

46. Is not aware of any instances that have occurred, or are likely to have occurred, of waste or abuse that could be quantitatively or qualitatively material to the financial statements.

47. Is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

48. Acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.

49. Has a process to track the status of audit findings and recommendations.

50. Has identified for the auditor previous audits, attestation engagements and other studies related to the audit objectives and whether related recommendations have been implemented.

51. Has provided views on the auditor's reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report.

52. Acknowledges its responsibilities as it relates to non-audit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.

In connection with your audit of federal and state awards conducted in accordance Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act, we confirm:

56. Management is responsible for complying, and has complied, with the requirements of Uniform Guidance and the State Single Audit Implementation Act.

57. Management is responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of its federal and state programs.

58. Management is responsible for the design, implementation, and maintenance, and has designed, implemented and maintained, effective internal control over compliance for federal and state programs that provides reasonable assurance that the auditee is managing federal awards in compliance with federal and state statutes, regulations, and the terms and conditions of the federal and state award that could have a material effect on its federal and state programs.

59. Management is responsible for the preparation of the schedule of expenditures of federal and state awards, acknowledges and understands its responsibility for the presentation of the schedule of expenditures of federal and state awards in accordance with the Uniform Guidance; believes the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with the Uniform Guidance and the State Single Audit Implementation Act, asserts that methods of measurement or presentation have not changed from those used in the prior period, or if the methods of measurement or presentation have changed, the reasons for such changes have been communicated; and is responsible for any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal and state awards.

60. Management will make the audited financial statements readily available to the intended users of the schedule no later than the issuance date by the entity of the schedule of expenditures of federal and state awards and the auditor's report thereon.

61. Management has identified and disclosed all of its government programs and related activities subject to the Uniform Guidance and the State Single Audit Implementation Act compliance audit.

62. Management has identified and disclosed to the auditor the requirements of federal and state statutes, regulations, and the terms and conditions of federal and state awards that are considered to have a direct and material effect on each major program.

63. Management has made available all federal and state awards (including amendments, if any) and any other correspondence relevant to federal and state programs and related activities that have taken place with federal and state agencies or pass-through entities.

64. Management has identified and disclosed to the auditor all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal and state awards or stated that there was no such noncompliance.

65. Management believes that the auditee has complied with the direct and material compliance requirements.

66. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.

67. Management is aware of no communications from federal and state awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

68. Management has disclosed to the auditor the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

69. Management is responsible for taking corrective action on audit findings of the compliance audit and has developed a corrective action plan that meets the requirements of the Uniform Guidance and State Single Audit Implementation Act.

70. Management has provided the auditor with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.

71. There are no subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

72. Management has disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to the period covered by the auditor's report or stated that there were no such known instances.

73. Management has disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to the period covered by the auditor's report.

74. All federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.

75. The copies of federal and state program financial reports provided to the auditor are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

76. Management has monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.

77. Management has considered the results of subrecipient monitoring and audits, and has made any necessary adjustments to the auditee's own books and records.

78. Management has charged costs to federal and state awards in accordance with applicable cost principles.

79. Management is responsible for, and has accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by Uniform Guidance and the State Single Audit Implementation Act.

80. The reporting package does not contain protected personally identifiable information.

81. Management has accurately completed the appropriate sections of the data collection form.

82. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

City of Asheville, North Carolina

Tony McDowell,
Finance Director

Rebecca Ogles,
Assistant Finance Director

Debra Campbell,
City Manager

EXHIBIT C

Performance Indicators

PERFORMANCE INDICATORS

The self-reported information from your unit's audit report was used to generate the following trends and performance indicators. We have created this Performance Indicator tab to make these indicators available to auditors and local governments when your audit is conducted. If any unit's results are shaded red, the unit must submit a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters" within 60 days from the auditor's board presentation. The response must address all performance indicators shaded in red.

Unit Name:	Asheville	Fiscal Year 2022	Explanation of Performance Indicator
Unit Number:	50012		

In the past, units of government have been grouped by population to evaluate ratios and benchmarking (including Fund Balance Available). Beginning with fiscal year 2020, we have grouped units by General Fund expenditures for purposes of evaluating the minimum amount of fund balance a unit needs to operate. A unit's General Fund expenditures proved to be a better correlation to the amount of funds balance needed to operate, especially for units with large higher education or tourism populations. Activity from Debt Service Funds (if applicable) is included in the calculation because these funds typically originate from the General Fund and are transferred to a Debt Service Fund.
The table below lists the thresholds that are used in the analysis of your unit's fiscal health. These thresholds were determined based on an analysis of previous years general fund activity. These thresholds will be monitored and updated as applicable.

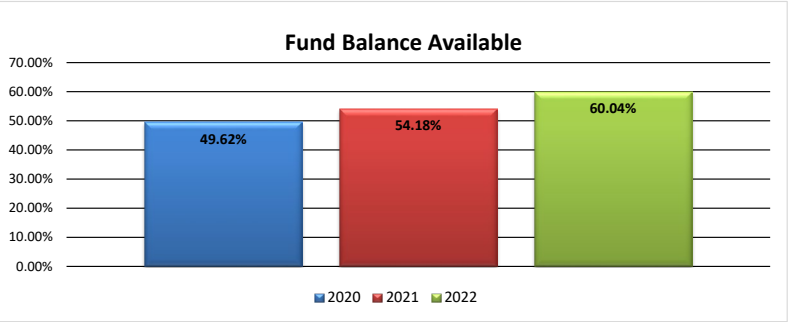
Municipalities

General Fund Expenditures below:	Median FBA as % of Expenditures without Powell Bill	Minimum Thresholds FBA as % of Expenditures	# of Months FBA using Annualized Expenditures
$100,000	260%	100%	12.00
$100,000 to $999,999	132%	71%	8.52
$1,000,000 to $9,999,999	63%	34%	4.08
Above $10,000,000	46%	25%	3.00

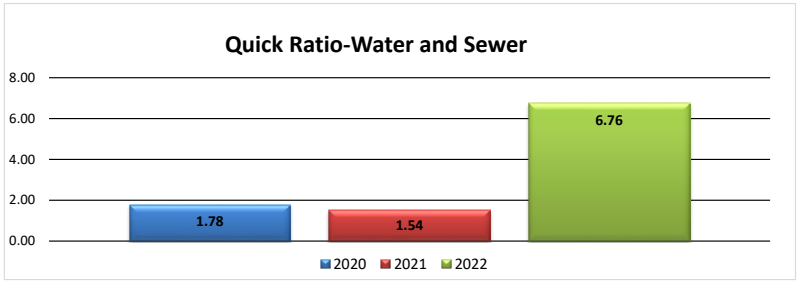
Counties

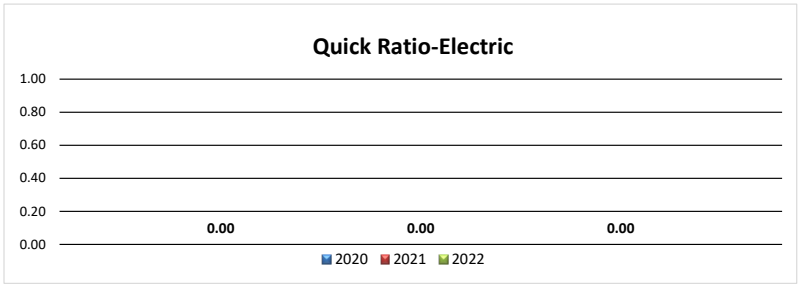
General Fund Expenditures below:	Median FBA as % of Expenditures without Powell Bill	Minimum Thresholds FBA as % of Expenditures	# of Months FBA using Annualized Expenditures
Below $100,000,000	39%	20%	2.40
$100,000,000 and above	32%	16%	1.92

Units of government are grouped by general fund expenditures for purposes of evaluating available fund balance as a percentage of expenditures (GF FBA%). Each grouping category has its own minimum threshold. If you are in the lower quartile your GF FBA% might be considered a performance indicator of concern and you might be asked to communicate to us. To the left are the minimum thresholds for Municipalities and Counties.

	GENERAL FUND:	Minimum Threshold	Unit Results	
1.		25% -- Average of similar units is 46%	60.04%	Fund balance available for appropriation is an important reserve for local governments to provide cash flow during periods of declining revenues and to be used for emergencies and unforeseen expenditures. The information to the left indicates the amount of available cash on hand. You will also see the average for units of your size. **Note that 8.33% represents enough fund balance to cover only one month of expenditures.** Normally, a unit has to either increase revenues or decrease expenditures to increase fund balance available. This calculation looks at fund balance available plus debt service fund balance (if applicable) less Powell Bill. This number is them divided by the total of total expenditures plus transfers out less bond proceeds.

	Unit Name:	Asheville	Fiscal Year 2022		Explanation of Performance Indicator
	Unit Number:	50012			
	GENERAL FUND:		**Minimum Threshold**	**Unit Results**	
2.	**There was appropriated fund balance for the General Fund in the 2022 budget AND your change in fund balance was negative. Please state if fund balance was used for operations or capital purposes.**		Positive Change in Fund Balance	N/A	If the General Fund has more expenditures than revenues because of operational issues and fund balance was appropriated to cover the loss, the continuation of this practice could result in deterioration of a unit's fund balance available.
3.	**The General Fund had total fund balance less than zero - Fund Deficit**		Positive Fund Balance	$121,740,633	The General Fund has a fund deficit which means that the unit's revenues and other receipts are inadequate to support its operations. G.S. 159 13(b)(2) requires that the board fund the full amount of a prior fiscal year's deficit in the current fiscal year's budget. Therefore, this deficit should have been funded immediately after the June 30, fiscal year-end. The law requires such action be taken to stop any further deterioration of the overall financial condition of the fund. Please let us know if the deficit was funded in the budget, and what actions the unit plans to take to bring the general fund balance up to an acceptable level.

	Unit Name:	Asheville			Fiscal Year 2022		Explanation of Performance Indicator
	Unit Number:	50012					
	WATER SEWER FUND:				**Minimum Threshold**	**Unit Results**	**Note: If more than one performance indicator is identified, one proposed solution may solve all water and sewer performance indicators.**
4.					Equal or greater than 1	6.76	A Quick Ratio less than 1 indicates that the unit owes mores for its current bills than what it has on hand in unrestricted cash and investments plus what is owed from customers (accounts receivable). This could indicate that the fund may have difficulty paying its current bills. If this pattern continues, the water and/or sewer system may not be sustainable.
	Cash Flow Indicators:	**2020**	**2021**	**2022**	**Minimum Threshold**	**Unit Results**	
5.	**Operating Net Income (Loss) excluding depreciation, including debt service principal and interest**	$11,555,602	$4,115,873	$9,321,197	Greater than zero	$9,321,197	This calculation subtracts operating expenses from operating revenues. Depreciation expense is not included the calculation but debt principal and interest payments are included. A negative balance indicates that your rates are not covering your operating expenses and debt service payments.
6.	**Unrestricted cash /total expenses excluding depreciation, including debt service principal and interest**	203.35%	229.67%	203.99%	Greater than 16% (2 months)	203.99%	This indicator calculates how many month's worth of expenses (including debt principal and interest but not depreciation) a unit can pay based on the amount of unrestricted cash at year-end. The typical billing cycle is one month (8.33%) and one extra month usually gives a local government enough cash to handle unusual monthly expenses (16.66%). **This 16% would be the bare minimum necessary to keep the fund from experiencing cash flow issues.**
7.	**It appears your Water Sewer Fund has transfers-in for the support of operations that are greater than 3% of the total of operating and non-operating expenses. Please discuss the purpose of such transfers-in and if you plan to continue these transfers-in.**			No		No	The rate structure of the Water and Sewer Fund should support the operating expenses of the fund without operating subsidies or transfers from other funds.

	Unit Name:	Asheville			Fiscal Year 2022		Explanation of Performance Indicator
	Unit Number:	50012					
	ELECTRIC FUND:				**Minimum Threshold**	**Unit Results**	**Note: If more than one performance indicator is identified, one proposed solution may solve all electric performance indicators.**
8.					Equal or greater than 1	#DIV/0!	A Quick Ratio less than 1 indicates that the unit owes mores for its current bills than what it has on hand in unrestricted cash and investments plus what is owed from customers (accounts receivable). This could indicate that the fund may have difficulty paying its current bills. If this pattern continues, the electric system may not be sustainable.
	Cash Flow Indicators:	**2020**	**2021**	**2022**	**Minimum Threshold**	**Unit Results**	
9.	**Operating Net Income (Loss) excluding depreciation, including debt service principal and interest**	N/A	N/A	N/A	Greater than zero	N/A	This calculation subtracts operating expenses from operating revenues. Depreciation expense is not included the calculation but debt principal and interest payments are included. A negative balance indicates that your rates are not covering your operating expenses.
10.	**Unrestricted cash /total expenses excluding depreciation, including debt service principal and interest**	N/A	N/A	N/A	Greater than 16% (2 months)	N/A	This indicator calculates how many month's worth of expenses (including debt principal and interest but not depreciation) a unit can pay based on the amount of unrestricted cash at year-end. The typical billing cycle is one month (8.33%) and one extra month usually gives a local government enough cash to handle unusual monthly expenses (16.66%). **This 16% would be the bare minimum necessary to keep the fund from experiencing cash flow issues.**

	Unit Name:	Asheville	Fiscal Year 2022		Explanation of Performance Indicator
	Unit Number:	50012			
	GENERAL PERFORMANCE INDICATORS:	**2022**	**Target**		
11.	**The 2022 Audit Report is expected to be submitted within five months plus one day from the fiscal year end per the auditor. (December 1st for most units)**	Yes	5 months plus one day after the fiscal year end	Yes	As stewards of the public's resources, the governing body is responsible for ensuring that the audited financial statements are available to the public in a timely manner. External groups such as the North Carolina General Assembly, federal and State agencies that provide funding, and other public associations need current financial information about your local government as well.
		2022	**Target**		
12.	**The budgeted ad valorem tax (including motor vehicles) for the General Fund had more than 3% uncollected for the fiscal year audited. Decreases are shown by a negative percentage.**	1.78%	Less than 3%	1.78%	This indicator shows that the local government did not collect 3% (or more) of its budgeted ad valorem taxes. This could be an indicator of negative economic events, inaccurate budgeting, and/or issues with the collection process. Uncollected revenues at the 3% level represent several pennies of the tax rate.
		2022	**Target**		
13.	**You indicated that you expect a decrease in property value for your next property revaluation. In your FPIC Response Letter please discuss the magnitude of the drop in valuation, the overall cause of the drop and how you plan to recover the lost revenues.**	N/A	Any estimated decrease	N/A	You indicated that you expect a decrease in property value for your next property revaluation which could result in lost tax revenue.
		2022	**Target**		
14.	**Did your audit disclose as a finding any budget violations? (Yes or No)**	No	No over-expenditures	No	The unit has expenditures that exceed the legal budget ordinance. This indicates that the unit's purchase order system, contract approval process and / or payment process is not in compliance with North Carolina General Statute 159.
		2022	**Target**		
15.	**If a unit has no performance indicators of concern that would require them to submit a Response to Audit Findings, Recommendations and Fiscal Matters, but they are currently on the Unit Assistance List, they must still submit an FPIC Response Letter. Their response should discuss the financial plan they have developed to address the issues that placed them on the Unit Assistance List and the progress they have made to date.**	Unit is not on the Unit Assistance List at this time		Unit is not on the Unit Assistance List at this time	N/A-Unit is not on the Unit Assistance List.
		2022	**Target**		
16.	**The Unit had material weaknesses, significant deficiencies, and/or statutory violations that should be addressed in the FPIC Response Letter.**	Yes		**Yes**	This indicator lists whether the unit has any material weaknesses, significant deficiencies, or management letter comments that require a response.
17.	**The unit had a board-appointed finance officer the entire fiscal year.**	Yes		Yes	This indicator is to determine if during the fiscal year, the unit was without a board-appointed finance officer.

	Unit Name:	Asheville	Fiscal Year 2022		Explanation of Performance Indicator
	Unit Number:	50012			
	GENERAL PERFORMANCE INDICATORS:	**2022**	**Target**		
18.	**The unit had problems with debt service payments being late and/or did not comply with the bond covenants.**	No		No	This indicator lists whether or not the unit has issues with debt service payments or bond covenants.
		2022	**Target**		
19.	**Electric transfers-out have exceeded the amounts described in GS 159B-39. If your unit is a member of the North Carolina Eastern Municipal Power Agency it appears you have violated the GS.** **OR** **If you are not a member of the Eastern Municipal Power Agency it appears that you have violated your unit's transfer policy.**	No		No	This indicator shows if there were electric transfers in in violation of G.S. 159B-39 or in violation of the unit's transfer policy.
		2022	**Target**		
20.	**Are there additional issues the unit should address that affect the fiscal health or internal controls of the unit that were communicated to the unit during the audit presentation? Please include details of the issue in cell J44 to the right and in your FPIC Response.**	No		No	This indicator lists any other issues that the unit should address.