CITY OF ASHEVILLE, NORTH CAROLINA

REPORT TO THE CITY COUNCIL

DECEMBER 1, 2021

PBMares SM

ASSURANCE, TAX & ADVISORY SERVICES

December 1, 2021

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, 2021. 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

PBMares, LLP

TABLE OF CONTENTS

Required Communications 1 – 2

Significant Accounting Estimates 3 – 5

Recorded Audit Adjustments 6 – 8

Uncorrected Misstatements 9

Exhibits

Exhibit A—Internal Control Matters

Exhibit B—Significant Written Communications Between Management and Our Firm

Bank Compliance Letter

Representation Letter

Exhibit C—Performance Indicators

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 May 10, 2021. 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 June 24, 2021 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. 84, "Fiduciary Activities," during the year. This Statement established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria is generally on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists.

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.

Uncorrected misstatements are summarized in the attached list of Uncorrected Misstatements. Uncorrected misstatements or matters underlying these uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if we have concluded that the uncorrected misstatements are immaterial to the financial statements under audit.

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*. This communication is 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 60 days of the receipt of this document.

For the year ended June 30, 2021, the City of Asheville had 1 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.

RECORDED AUDIT ADJUSTMENTS

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

Governmental Activities	Effect - Increase (Decrease)				
Description	Assets	Liabilities	Net Position	Revenue	Expense
To correct Section 108 and CDBG loan receivables	$ (432,918)	$ (432,918)	$ -	$ -	$ -
To correct the classification of certain installment loan payments made in advance of the due date	(1,797,334)	(1,797,334)	-	-	-
To correct compensated absences payable	-	556,834	-	-	556,834
To correct accrued interest	-	(30,752)	-	-	(30,752)
To recognize 911 PSAP revenues	-	(837,605)	-	837,605	-
To correct pension liability and related deferrals	(729,398)	(1,365,456)	-	-	(636,058)
Change in net position effect			947,581	$ 837,605	$ (109,976)
Statement of net position effect	$ (2,959,650)	$ (3,907,231)	$ 947,581		

Business-Type Activities	Effect - Increase (Decrease)				
Description	Assets	Liabilities	Net Position	Revenue	Expense
To correct receivable and revenue for grant that was not awarded by year-end	$ (1,627,367)	$ -	$ -	$ (1,627,367)	$ -
To correct the classification of certain installment loan payments made in advance of the due date	(120,521)	(120,521)	-	-	-
To correct compensated absences payable	-	2,809	-	-	2,809
To correct accrued interest	-	(24,483)	-	-	(24,483)
To correct pension liability and related deferrals	743,780	1,393,064	-	-	649,284
Change in net position effect			(2,254,977)	$ (1,627,367)	$ 627,610
Statement of net position effect	$ (1,004,108)	$ 1,250,869	$ (2,254,977)		

General Fund	Effect - Increase (Decrease)				
Description	Assets	Liabilities	Fund Balance	Revenue	Expenditure
To return restricted cash related to 911 PSAP revenues to the General Fund, and recognize related revenues	$ 756,175	$ (81,430)	$ -	$ 837,605	$ -
To correct accrued interest	-	(30,151)	-	-	(30,151)
Change in net position effect			867,756	$ 837,605	$ (30,151)
Balance sheet effect	$ 756,175	$ (111,581)	$ 867,756		

Grant Programs Fund Description	Effect - Increase (Decrease) Assets	Liabilities	Fund Balance	Revenue	Expenditure
To correct restricted cash and unearned revenues related to 911 PSAP revenues	$ (756,175)	$ -	$ -	$ -	$ -
Balance sheet effect	$ (756,175)	$ -	$ -		

Water Resources Fund Description	Effect - Increase (Decrease) Assets	Liabilities	Net Position	Revenue	Expense
To correct compensated absences payable	$ -	$ 2,809	$ -	$ -	$ 2,809
To correct pension liability and related deferrals	460,078	856,902	-	-	396,824
Change in net position effect			(399,633)	$ -	$ 399,633
Statement of net position effect	$ 460,078	$ 859,711	$ (399,633)		

Parking Services Fund Description	Effect - Increase (Decrease) Assets	Liabilities	Net Position	Revenue	Expense
To correct accrued interest	$ -	$ (18,335)	$ -	$ -	$ (18,335)
To correct pension liability and related deferrals	120,859	246,390	-	-	125,531
Change in net position effect			(107,196)	$ -	$ 107,196
Statement of net position effect	$ 120,859	$ 228,055	$ (107,196)		

Mass Transit Fund Description	Effect - Increase (Decrease) Assets	Liabilities	Net Position	Revenue	Expense
To correct pension liability and related deferrals	$ 23,368	$ 35,251	$ -	$ -	$ 11,883
Change in net position effect			(11,883)	$ -	$ 11,883
Statement of net position effect	$ 23,368	$ 35,251	$ (11,883)		

Aggregate Remaining Fund Information Description	Effect - Increase (Decrease) Assets	Liabilities	Net Position	Revenue	Expense
To correct Section 108 and CDBG loan receivables	$ (432,918)	$ (432,918)	$ -	$ -	$ -
To correct receivable and revenue for grant that was not awarded by year-end	(1,627,367)	-	-	(1,627,367)	-
To correct the classification of certain installment loan payments made in advance of the due date	(120,521)	(120,521)	-	-	-
To correct accrued interest	-	(6,148)	-	-	(6,148)
To correct pension liability and related deferrals	139,475	254,521	-	-	115,046
Change in net position effect			(1,736,265)	$ (1,627,367)	$ 108,898
Statement of net position effect	$ (2,041,331)	$ (305,066)	$ (1,736,265)		

UNCORRECTED MISSTATEMENTS

We identified the following uncorrected misstatements that management has concluded are not, individually or in the aggregate, material to the basic financial statements. We agree with management's conclusion in that regard.

Governmental Activities	Effect - Increase (Decrease)				
Description	Assets	Liabilities	Net Position	Revenue	Expense
Current year impact from reversal of prior year misstatements	$ -	$ -	$ (756,175)	$ 756,175	$ -
Change in net position effect			756,175	$ 756,175	$ -
Statement of net position effect	$ -	$ -	$ -		

General Fund	Effect - Increase (Decrease)				
Description	Assets	Liabilities	Fund Balance	Revenue	Expenditure
Current year impact from reversal of prior year misstatements	$ -	$ -	$ (756,175)	$ 756,175	$ -
Change in fund balance effect			756,175	$ 756,175	$ -
Balance sheet effect	$ -	$ -	$ -		

EXHIBIT A

Internal Control Matters

December 1, 2021

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, 2021, 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.

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

2021-001 Other Postemployment Benefit (OPEB) Liabilities – Census Data

During our testing of the OPEB liabilities, we noted that incorrect census data was provided to the actuary. The resulting misstatement was attributable to insufficient review of the census data, resulting in additions and deletions from active employees that should not have occurred. We recommend performing additional reviews of the census data for completeness and accuracy before providing it to the actuary.

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.

PBMares, LLP

PBMares, LLP

EXHIBIT B

Significant Written Communications Between Management and Our Firm

Bank Compliance Letter

PBMares SM

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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 1, 2021.

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
December 1, 2021

Representation Letter

THE CITY OF ASHEVILLE

December 1, 2021

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, 2021 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 30, 2021:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated May 10, 2021, 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. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable 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, including component units for which the City is accountable, 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, joint ventures in which the City has an interest, and jointly governed organizations in which the City participates, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements and guarantees, 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.

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. 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.

THECITYOF ASHEVILLE

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

9. We understand that the Parking fund does not meet the requirements to be considered a major fund, however for clarity and consistency we have elected to present it as such.

10. 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.

11. 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.

12. We have informed you of all uncorrected misstatements.

    As of and for the year ended June 30, 2021, we believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate, to the opinion units of the basic financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Governmental Activities	Effect - Increase (Decrease)				
Description	Assets	Liabilities	Net Position	Revenue	Expense
Current year impact from reversal of prior year misstatements	$ -	$ -	$ (756,175)	$ 756,175	$ -
Change in net position effect	-	-	756,175	$ 756,175	$ -
Statement of net position effect	$ -	$ -	$ -		

General Fund	Effect - Increase (Decrease)				
Description	Assets	Liabilities	Fund Bal.	Revenue	Expenditure
Current year impact from reversal of prior year misstatements	$ -	$ -	$ (756,175)	$ 756,175	$ -
Change in fund balance effect	-	-	756,175	$ 756,175	$ -
Balance sheet effect	$ -	$ -	$ -		

THE CITY OF ASHEVILLE

Information Provided

13. We have provided you with:

    a. 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;

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

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

    d. 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.

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

15. 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.

16. 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.

17. 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.

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

19. 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.

20. 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.

21. We have informed you of all significant deficiencies or 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.

22. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
23. 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.

Supplementary Information

24. 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.

25. 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:

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

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

28. 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.

29. 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.

30. 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.

31. 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.

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

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

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

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

36. 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.

THE CITY OF ASHEVILLE

City of Asheville, North Carolina

Tony McDowell,
Finance Director

Becki King,
Assistant Finance Director

Debra Campbell,
City Manager

EXHIBIT C

Performance Indicators

PERFORMANCE INDICATORS OF CONCERN

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 then 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.

Performance Indicator Worksheet

Unit Name:	**Asheville**	**Fiscal Year 2021**	**Explanation of Performance Indicator**
Unit Number:	**50012**		

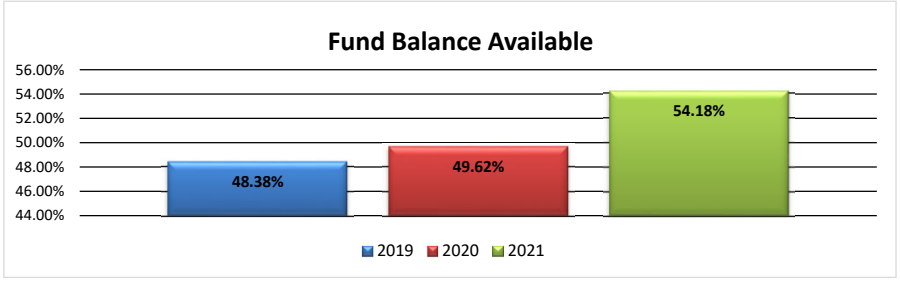
Municipalities

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

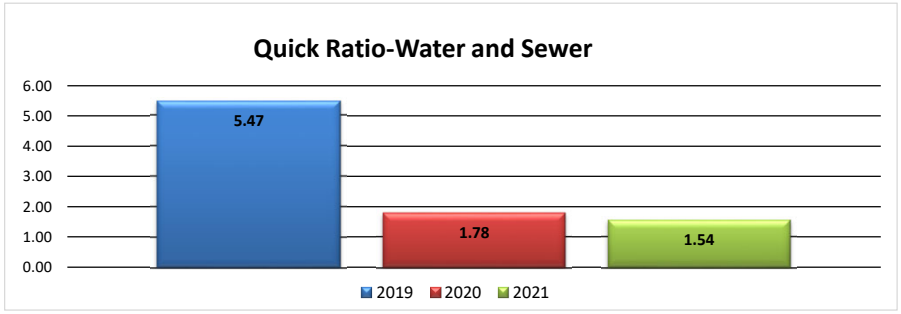
Counties

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

In the past, units of government have been grouped by population to evaluate various ratios and benchmarking. This year we have also grouped units by expenditure which is a more effective comparison for some ratios. Beginning with this year, units of government have been 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**	
	25% -- Average of similar units is 46%	54.18%	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 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.

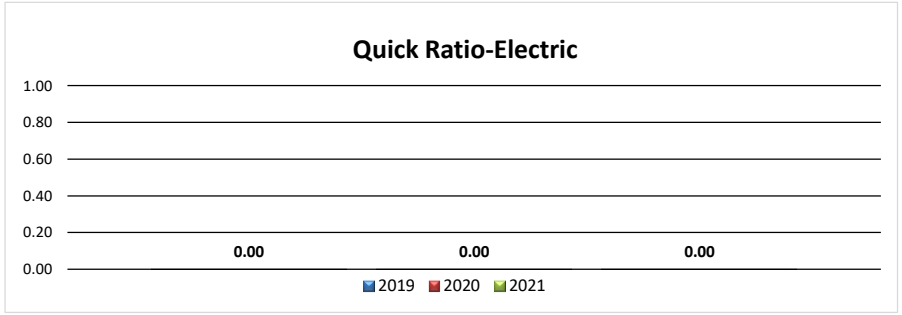
Performance Indicator Worksheet

Unit Name:	Asheville	Fiscal Year 2021		Explanation of Performance Indicator
Unit Number:	50012			
Water Sewer Fund		**Minimum Threshold**	**Unit Results**	It is not uncommon for a Water Sewer System with multiple performance indicators of concern to find that a proposed solution to one of the indicators also solves other performance indicators of concern.
		Equal or greater than 1	1.54	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.

	2019	2020	2021	Minimum Threshold	Unit Results	
Operating Net Income (loss) excluding depreciation+ debt service principal	$ 14,874,247	$ 14,042,123	$ 7,019,623	Greater than zero	$ 7,019,623	This calculation subtracts operating expenses (which also includes depreciation and debt principal paid) from operating revenues. A negative balance indicates that your rates are not covering your operating expenses.
Unrestricted cash / Total expenses less depreciation+debt service principal	265.02%	220.00%	254.98%	Greater than 16% (2 months)	254.98%	This indicator calculates how many month's worth of expenses (including debt principal 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.
It appears your Water Sewer fund(s) have 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			The rate structure of the Water Sewer fund should support the expenses of the Fund without operating subsidies or transfers from other funds.

Performance Indicator Worksheet

Unit Name:	**Asheville**	**Fiscal Year 2021**	**Explanation of Performance Indicator**
Unit Number:	**50012**		

ELECTRIC FUND:	**Minimum Threshold**	**Unit Results**	
	Equal or greater than 1		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.

	2019	**2020**	**2021**	**Minimum Threshold**	**Unit Results**	
Operating Net Income (loss) excluding depreciation+ debt service principal	N/A	N/A	N/A	Less than zero is below threshold	N/A	This calculation subtracts operating expenses (which also includes depreciation and debt principal paid) from operating revenues. A negative balance in this indicates that your rates are not covering your operating expenses.
Unrestricted cash / Total expenses less depreciation+debt service principal	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 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.

Performance Indicator Worksheet

Unit Name:	**Asheville**	**Fiscal Year 2021**	**Explanation of Performance Indicator**
Unit Number:	**50012**		

GENERAL PERFORMANCE INDICATORS:	**2021**	**Target**		
The 2021 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.
	2021	**Target**		
The budgeted tax levy for the General fund had more than 3% uncollected for the fiscal year audited - decreases are shown by a negative %	3%	Less than 3%	**3%**	This indicator shows that the local government did not collect 3% (or more) of its budgeted tax levy. 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.
	2021	**Target**		
You indicated that you expect a decrease in property value for your next property revaluation. In your Response Letter please discuss the magnitude of the drop in valuation, the overall cause of the drop and how your County plans 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.
	2021	**Target**		
Does the entity have an effective pre-audit process to ensure that pervasive budgetary over-expenditures do not occur at the budget ordinance level?	**Yes**	No over-expenditures	Yes	The unit had expenditures that exceeded 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.
	2021	**Target**		
The local government had a mandate placed on them by DEQ, a court order or some similar requirement (that has no realistic appeal path) that the financial effect will be greater than 3% of the WS Budget and is not yet budgeted.	No		No	The local government has indicated there is substantial unbudgeted costs that could significantly impact their operations and/or customer rates.
	2021	**Target**		
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 a Response to Audit Findings, Recommendations and Fiscal Matters. 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	On the Unit Assistance List	Unit is not on the Unit Assistance List at this time	N/A-Unit is not on the Unit Assistance List.
	2021	**Target**		
The Unit had Statutory Violations listed in the Audit Report that should be addressed in the Unit Response Letter	No		No	This indicator lists whether the unit has a statutory violation.

Performance Indicator Worksheet

Unit Name:	**Asheville**	**Fiscal Year 2021**		**Explanation of Performance Indicator**
Unit Number:	**50012**			
GENERAL PERFORMANCE INDICATORS:	**2021**	**Target**		
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.
	2021	**Target**		
You have indicated that you have a landfill that will be closing or have a significant portion closing within the next 5 years and will have the closure/postclosure cost fully funded by the date of closure.	N/A		N/A	This indicator tells if you have a landfill that is estimated to close within 5 years but the unit may not have enough funds for the closure/post closure costs.
	2021	**Target**		
The unit must address the material and/or significant findings or any other findings that the auditor reported to them.	1			This indicator states whether or not your auditor has identified material and/or significant findings or any other findings for your unit.
	2021	**Target**		
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. If you are not a member of the Eastern Municipal Power Agency we would like to understand what you are funding with the transfers-out and do you plan to continue this practice.	No		No	This indicator shows if there were transfer out of the Electric Fund. This only applies to units that are subject to GS 159B-39 : Apex, Ayden, Belhaven, Benson, Clayton, Edenton, Elizabeth City, Farmville, Fremont, Greenville, Hamilton, Hertford, Hobgood, Hookerton, Kinston, LaGrange, Laurinburg, Louisburg, Lumberton, New Bern, Pikeville, Red Springs, Robersonville, Rocky Mount, Scotland Neck, Selma, Smithfield, Southport, Tarboro, Wake Forest, Washington, and Wilson.
	2021	**Target**		
In addition to the any significant and material findings the Auditor can describe any 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.	0		0	This indicator lists any other issues that the unit should address.