



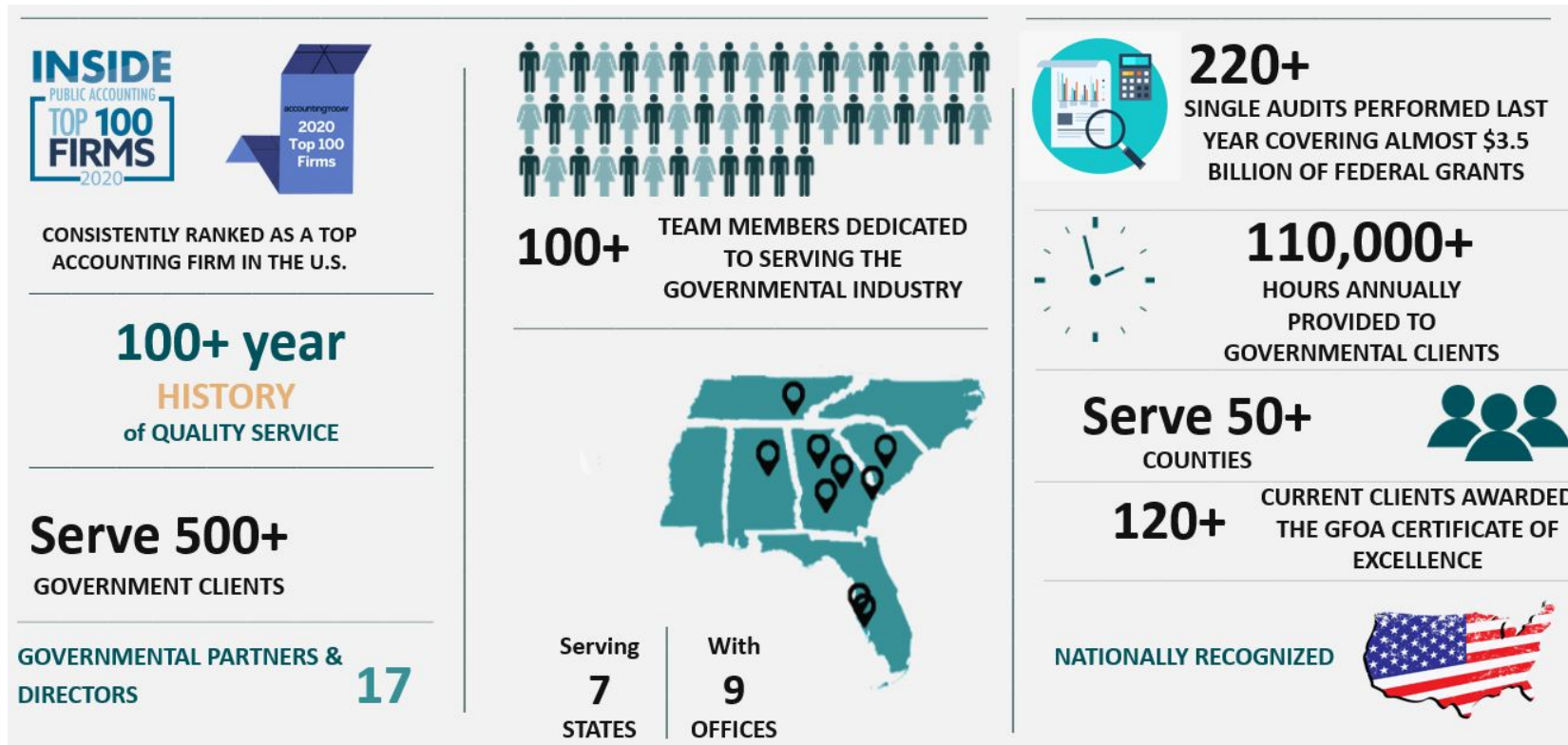
**Presentation of
Annual Audit Results
March 8, 2021**



Meeting Agenda

- Engagement Team
- Results of the 2020 Audit
- Financial Trends
- Comments, Recommendations, and Other Issues
- Questions

Engagement Team



Engagement Team Leaders

- Tim Lyons, CPA, CGMA – Engagement Lead Partner
- Kyle Slovick, CPA – Senior Associate (In-Charge)
- James Bence, CPA – Engagement Quality Control Review Partner

Results of 2020 Audit

- Our Responsibility Under Auditing Standards Generally Accepted in the United States of America (GAAS) and *Government Auditing Standards* (GAS)
 - Our audit was performed in accordance with GAAS and GAS.
 - We considered the internal control structure for the purpose of expressing our opinion on the Town’s basic financial statements and not for the purpose of providing assurance on the internal control structure.
 - Our objective is to provide reasonable—not absolute—assurance that the basic financial statements are free from material misstatement.
 - The basic financial statements are the responsibility of the Town’s management.
- Report on 2020 Basic Financial Statements
 - Unmodified (“clean”) opinion on basic financial statements.
 - Presented fairly in accordance with accounting principles generally accepted in the United States of America (GAAP).
 - Our responsibility does not extend beyond financial information contained in our report.
- Report on Internal Controls Over Financial Reporting and on Compliance in Accordance with GAS
 - One (1) material weakness in the Town’s internal control over financial reporting.
 - No instances of noncompliance reported.

Results of 2020 Audit (Continued)

■ Finding 2020-001: Segregation of Duties

- Segregation of duties is an important concept in a sound internal control environment. Although the size of the Town’s staff is an impediment, it is important that certain incompatible duties be assigned to different individuals and/or compensating controls be implemented. The following are areas where we noted a lack of segregation of duties in the Town’s financial operations:
 - The accounts payable position has access and authority over all stages of the disbursement process. This position has the ability to create purchase orders, is responsible for reconciling the purchase orders to the incoming invoices, is responsible for generating and printing the checks, and is responsible for reconciling the cleared checks from the bank statements each month.
 - Manual journal entries can be initiated, approved, and posted by the same individual.
 - The monthly bank reconciliations can be performed and reviewed by the same individual.
- Failure to properly segregate duties or implement compensating controls can lead to misappropriation of funds or abuse of the system that could go undetected. We recommend the Town segregate duties and/or implement compensating controls in the key areas noted above.

Required Communications

- Significant Accounting Policies
 - The significant accounting policies used by the Town are described in Note 1 to the basic financial statements.
 - The Town was not required to implement any new accounting standards in the current year’s report.
 - In considering the policies used by the Town, we noted they are in accordance with generally accepted accounting principles and similar government organizations with no significant new policies or qualitative aspects of its policies. The Town is not involved in any controversial or emerging issues for which guidance is not available.

- Management Judgment/Accounting Estimates
 - The Town uses various estimates as part of its financial reporting process – including the useful lives of the Town’s capital assets and actuarial assumptions related to its pension (LGERS and LEOSA) and other postemployment benefit (OPEB) obligations.
 - Management’s estimates used in preparation of the financial statements were deemed reasonable in relation to the financial statements taken as a whole. We considered this information and the qualitative aspects of management’s calculations in evaluating the Town’s significant accounting estimates.

Required Communications (Continued)

■ Financial Statement Disclosures

- The footnote disclosures to the financial statements are also an integral part of the financial statements and the process used by management to accumulate the information included in the disclosures was the same process used in accumulating the statements. The overall neutrality, consistency, and clarity of the disclosures was considered as part of our audit.

■ Relationship with Management

- We received full cooperation from the Town's management and staff.
- There were no disagreements with management on accounting issues or financial reporting matters.

■ Audit Adjustments

- There were several adjustments posted to the trial balances provided to us by the Town for audit; however, the majority of these entries were provided to us by the Town and were not considered audit adjustments.
- There were no passed audit adjustments.

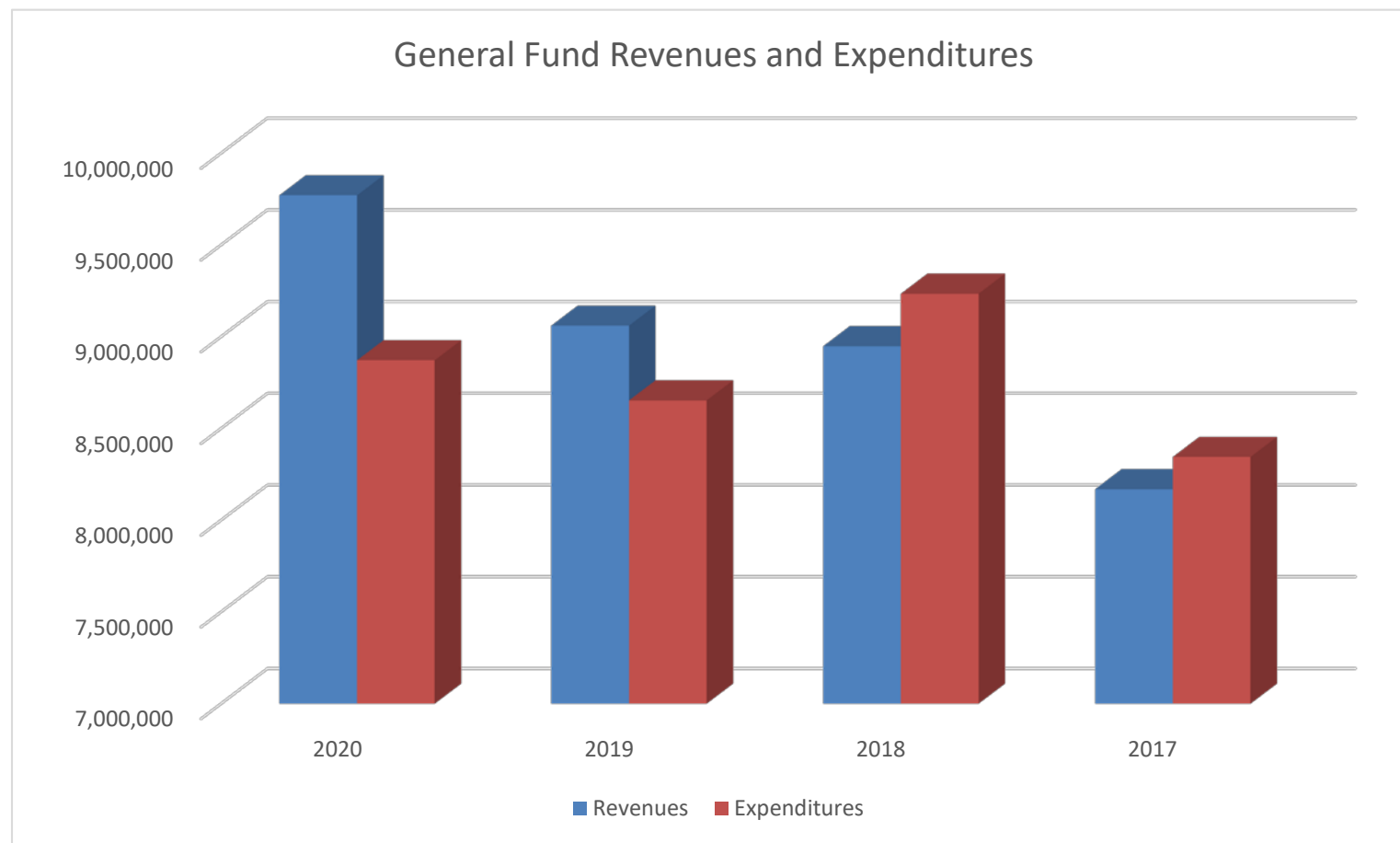
■ Representation from Management

- We requested written representations from management relating to the accuracy of information included in the financial statements and the completeness and accuracy of various information requested by us, during the audit. Management provided those written representations without a problem.

Required Communications (Continued)

- Consultation with Other Accountants
 - To the best of our knowledge, management has not consulted with, or obtained opinions from, other independent accountants during the year, nor did we face any issues requiring outside consultation.
- Significant Issues Discussed with Management
 - There were no significant issues discussed with management related to business conditions, plans, or strategies that may have affected the risk of material misstatement of the financial statements.
- Information in Documents Containing Audited Financial Statements
 - Our responsibility for other information in documents containing the Town’s basic financial statements and our report thereon does not extend beyond the information identified in our report. If the Town intends to publish or otherwise reproduce the financial statements and make reference to our firm, we must be provided with printers’ proof for our review and approval before printing. The Town must also provide us with a copy of the final reproduced material for our approval before it is distributed.
- Auditor Independence
 - In accordance with AICPA professional standards, M&J is independent with regard to the Town and its financial reporting process.
 - There were no fees paid to M&J for management advisory services during fiscal year 2020 that might effect our independence as auditors.

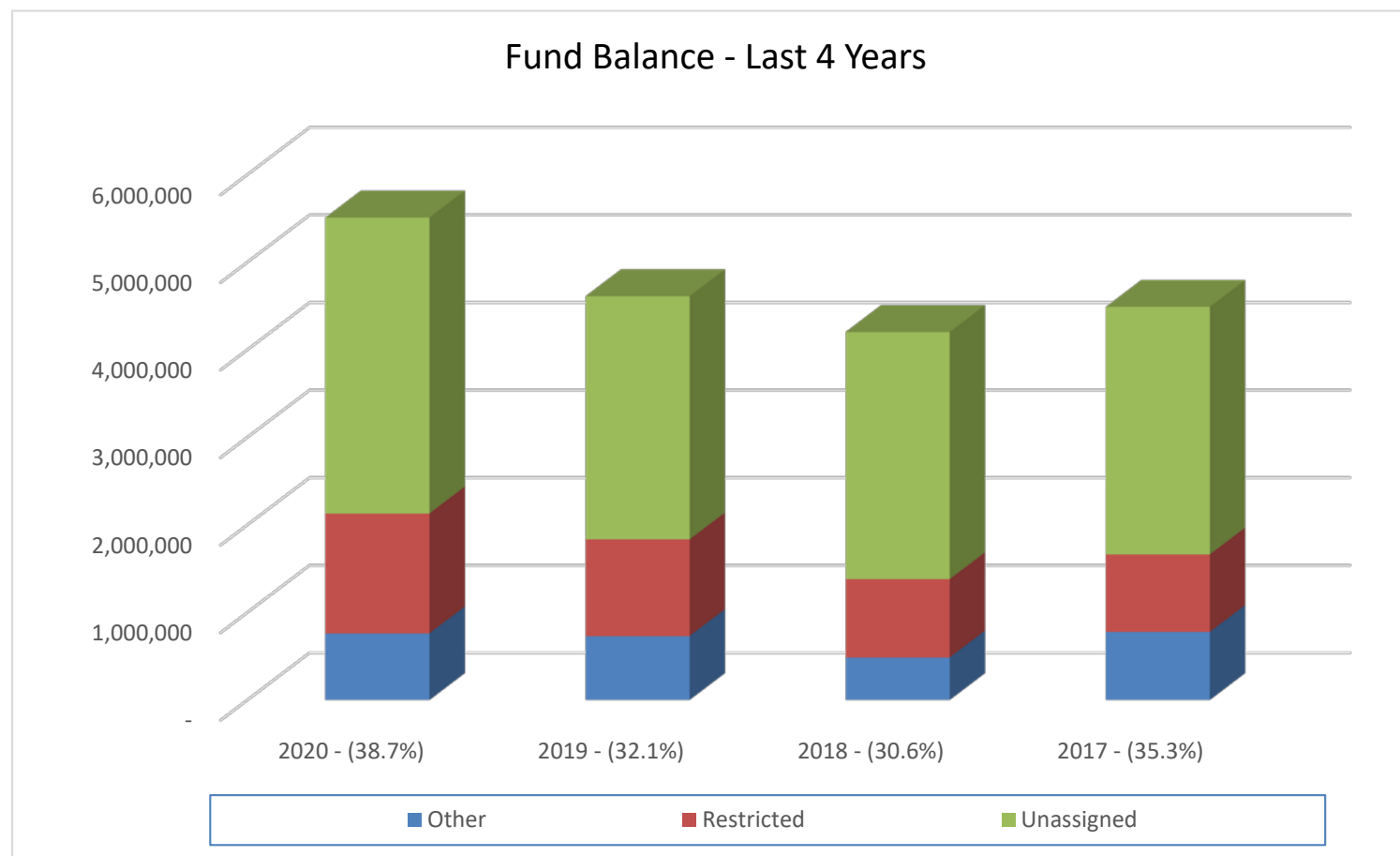
Financial Trends – General Fund Revenues and Expenditures



Major Trends

- Significant proceeds from sale of land (approx. \$560,000).
- Expenditures largely flat from fiscal year 2019 to fiscal year 2020.

Financial Trends – Fund Balance (General Fund)

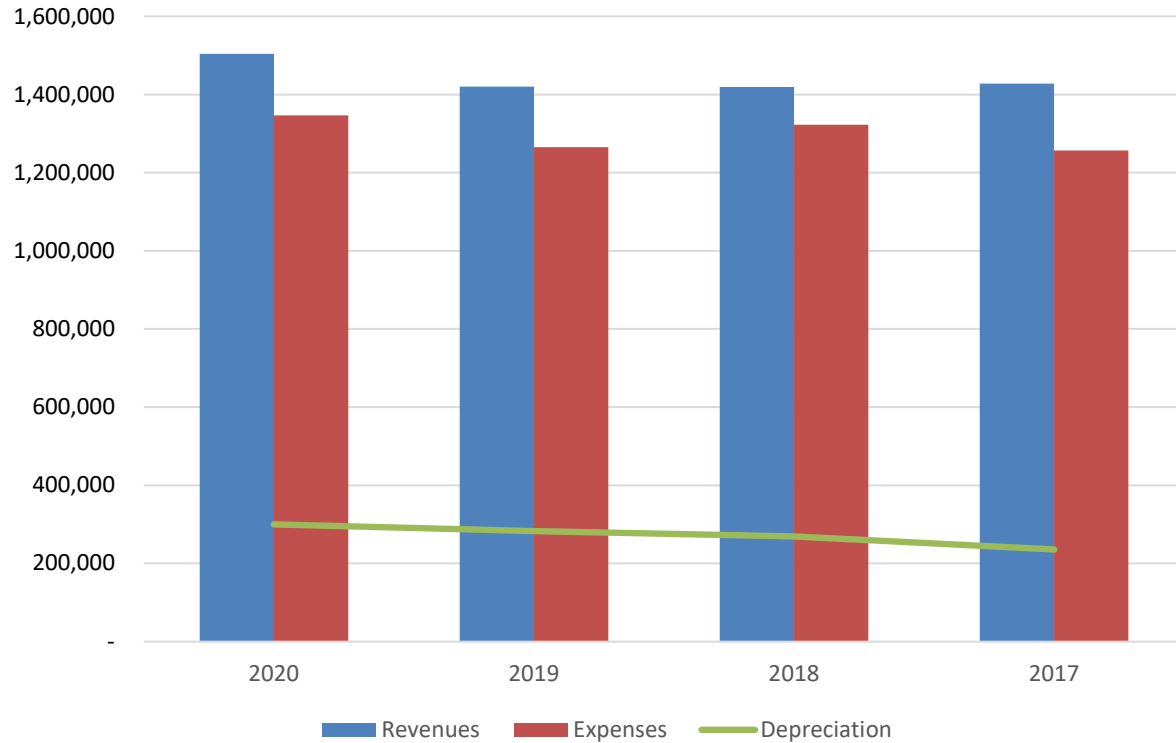


Fund Balance / Expenditures

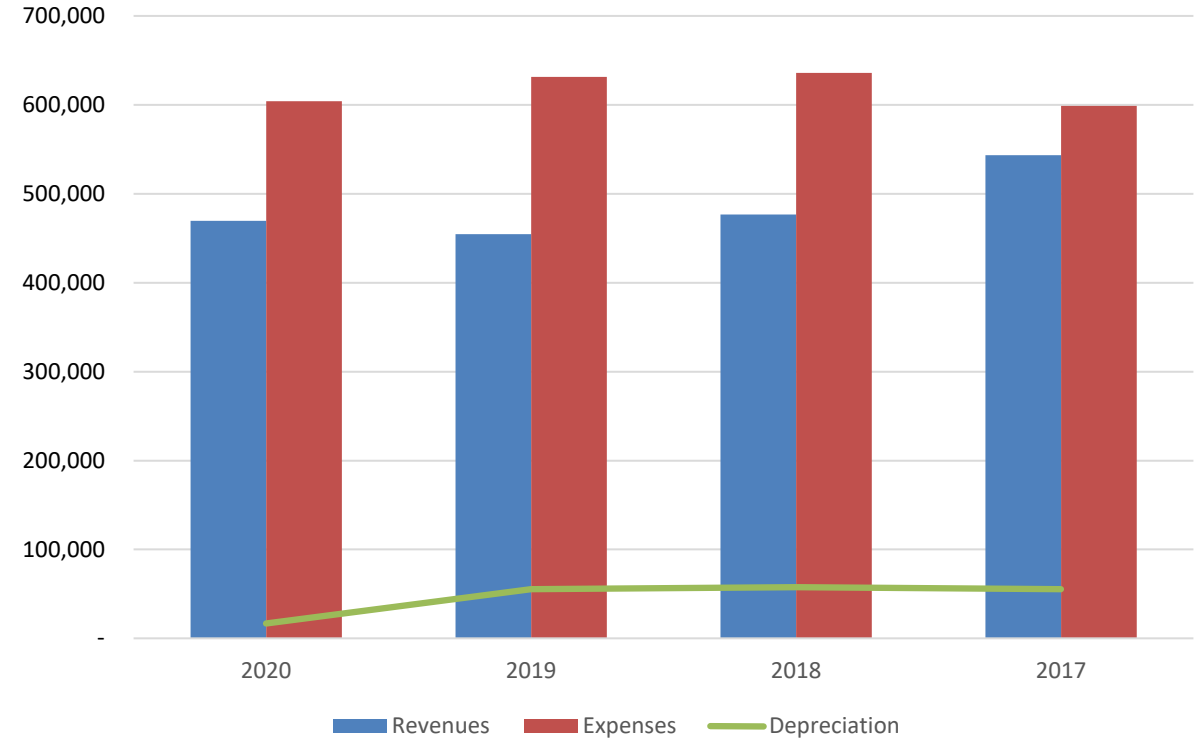
- 2020: 63% (39% unassigned)
- 2019: 69% (32% unassigned)
- 2018: 69% (31% unassigned)
- 2017: 65% (35% unassigned)
- 2016: 61% (39% unassigned)

Financial Trends – Proprietary Fund Operations

Water Fund Performance



Golf Fund Performance



Financial Trends – Proprietary Fund Cash Flows

	Water Fund	Golf Course Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,516,946	\$ 466,007
Payments to suppliers	(551,318)	(114,481)
Payments to employees	(436,242)	(331,016)
Net cash provided by operating activities	<u>529,386</u>	<u>20,510</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers to other funds	(618,668)	(8,125)
Repayment of interfund loans from other funds	377,542	-
Other receipts	1,551	-
Net cash used in non-capital financing activities	<u>(239,575)</u>	<u>(8,125)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(188,842)	(21,872)
Principal and interest payments on long-term debt	(250,411)	-
Other	33,524	-
Net cash used in capital and related financing activities	<u>(405,729)</u>	<u>(21,872)</u>
Net increase (decrease) in cash for period	<u>\$ (115,918)</u>	<u>\$ (9,487)</u>

Net Position as of June 30, 2020		
	Water Fund	Golf Fund
Net investment in capital assets	\$ 5,036,110	\$ 709,721
Unrestricted	182,725	(637,082)
Total net position	<u>\$ 5,218,835</u>	<u>\$ 72,639</u>

Net Position as of June 30, 2019		
	Water Fund	Golf Fund
Net investment in capital assets	\$ 4,963,574	\$ 704,495
Unrestricted	748,964	(489,195)
Total net position	<u>\$ 5,712,538</u>	<u>\$ 215,300</u>

Comments & Other Matters

■ Recommendations in Management Letter

Purchasing Manual

During our documentation of the controls surrounding the accounts payable and expenditures, the Town does not have a current purchasing manual that defines restrictions on purchasing of goods or services from governing body members, employees, or other suppliers that would create a conflict of interest. As a recipient of Federal funding, the Town should have a formal policy in place that addresses such items and we recommend the Town updates or amends its current purchasing policy to ensure that these items are addressed.

Vendor Master File Reviews

The Town does not currently review or actively maintain the Town's vendor master file. In accordance with a sound internal control environment and as a mitigating internal control due to the small size of the Town's staff, we recommend the Town periodically review the master file for any unusual or suspicious vendors, as well as to remove any authorized vendors which the Town no longer wishes to do business.

Comments & Other Matters (Continued)

■ Recommendations in Management Letter (Continued)

Information Technology Monitoring Controls

In today's Information Technology environment entities can outsource many areas of its operations, including all or part of any service, process or system operation. Outsourcing of technology-related services may improve quality, reduce costs, and strengthen controls. The decision to outsource should fit into an entity's overall strategic plan and the Town's objectives, and the degree of oversight and review of outsourced activities should depend on the criticality of the service, process or system to the entity's operation. We recommend that the Town develop a comprehensive vendor risk management process to govern their third party service provider relationships. This process should include risk assessment, selection of service providers, contract review, and regular monitoring of service providers. Outsourced relationships should be subject to the same risk management, security, privacy, and other policies that would be expected if the entity were conducting these activities in-house. At least annually, the Board of Aldermen should ensure an independent review of the entity's vendor risk management process occurs.

Comments & Other Matters (Continued)

■ New GASB Pronouncements for Future Years

- GASB Statement No. 84, *Fiduciary Activities*, is applicable for the Town’s fiscal year ended June 30, 2021. The Town currently reports one (1) agency fund that will need to be re-examined under the new standard and determinations will need to be made whether this fund can remain an agency fund (renamed a “custodial fund” under the new standard) or if the activity of the fund needs to be brought into the Town’s other governmental funds. The focus will be on (1) whether the Town is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom the fiduciary relationship exists. All fiduciary funds will require a statement of changes in fiduciary net position.
- GASB Statement No. 87, *Leases*, will require all lease agreements to be recorded as a liability under full accrual accounting. Many of these leases were previously considered operating leases and payments were expensed as incurred with no liability accrued. Applicable for June 30, 2022.
- GASB Statement No. 96, *Subscription Based Information Technology Arrangements*, or “SBITAs”, incorporates much of the guidance contained in Statement No. 87 and applies that guidance to arrangements where the Town is, in essence, leasing IT assets. This Statement will require all SBITAs to be recorded as a liability under full accrual accounting with an offsetting right-to-use asset. Applicable for June 30, 2023.

■ Other Matters Currently Being Considered by GASB

- Financial reporting model (Changes in accounting for governmental funds)
- Revenue and Expense Recognition
- Other Footnote Disclosures

Comments & Other Matters (Continued)

■ Federal Actions Related to COVID-19

- CARES Act Passed in Spring 2020
 - Coronavirus Relief Funds (CRF)
 - Compliance Supplement Addendum released by OMB in late December 2020
- Consolidated Appropriations Act, 2021
 - Includes year-long extension of the December 30 deadline to spend the \$150 billion provided under the CARES Act CRF for state and local governments
- Compliance Considerations
 - Lots of FAQs issued by all Federal department / agencies
 - Additional guidance from the State of North Carolina
 - Significant FFATA reporting requirements



Free Client CPE!

FREE QUARTERLY CONTINUING EDUCATION AND NEWSLETTERS FOR GOVERNMENTAL CLIENTS

Free Continuing Education. We provide free quarterly continuing education for all of our governmental clients. Each quarter we pick a couple of significant topics tailored to be of interest to governmental entities. In an effort to accommodate our entire governmental client base, we offer the sessions several times per quarter at a variety of client provided locations resulting in greater networking among our governmental clients. Examples of subjects addressed in the past few quarters include:

- CAFR Preparation - GASB Updates - Grant Accounting Processes and Controls - GASB 68 (Pensions) – GASB 75 (OPEB)
- Internal controls over revenue and cash receipting and accounts payable, payroll, and cash disbursements
- CARES Act (ARRA) information, issues and updates - Single audits for auditees
- Collateralization of Deposits and Investments - Internal Controls over Accounts Payable, Payroll and Controls
- Policies and Procedures Manuals - Segregation of Duties – GASB 87 (Leases)
- Data Security and General Information Technology Controls and Best Practices

Communication. In an effort to better communicate our free continuing education plans and newsletters, please email Paige Vercoe at pvercoe@mjcpa.com (send corresponding copy to tlyons@mjcpa.com), and provide to her individual names, mailing addresses, email addresses and phone numbers of anyone you wish to participate and be included in our database.

Conclusion

Comments and Questions?

We appreciate the opportunity to serve the Town of Black Mountain and look forward to continuing to work with the Town in upcoming years!