

Report to the  
Town Council

## Town of Carrboro

June 30, 2022

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Final Draft

## Contacts

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## Communication with Those Charged with Governance

February 15, 2023

Town Council  
Town of Carrboro  
Carrboro, NC

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Carrboro (the "Town") for the year ended June 30, 2022, and have issued our report thereon dated February 15, 2023. Professional standards require that we provide you with information about our responsibilities in accordance with auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 19, 2022. Professional standards also require that we communicate to you the following information related to our audit.

### **Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated May 19, 2022, our responsibility, as described by professional standards, is to express opinions on each opinion unit about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide any assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

We have issued a written report on our consideration of internal controls and compliance in accordance with *Government Auditing Standards*, in which we identified a material weakness in internal controls over financial reporting.

**Our Responsibility under Office of Management and Budget ("OMB") 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**

As stated in our engagement letter dated May 19, 2022, our responsibility, under Federal and State regulations, is to examine on a test basis, evidence about the Town's compliance with the type of compliance requirements described in the OMB Compliance Supplement applicable to each of its major federal programs and the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina* (the Audit Manual) that could have a direct and material effect on the Town's major state programs. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination the Town's compliance with those requirements. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance and the Audit Manual. We have issued a written report on the Town's compliance, in which we did not identify any material weaknesses or significant deficiencies in internal controls over compliance with the major Federal and State programs.

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 1 to the financial statements. With the exception of the adoption of GASB 87, Leases, as further described in our report below, no new accounting policies were adopted and the application of existing policies was not changed during the reporting period. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management, and are based on management's knowledge and experience about past and current events, and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciable lives of property and equipment is based on the expected useful lives of the individual capital assets.

Management's estimate of the allowance for doubtful accounts and uncollectible loan losses is based on historical collection experience and collateral.

Management's estimate of the liabilities related to the pension plans and other postemployment benefits, as well as the related deferred inflows and outflows of resources, are based on actuarial assumptions and projections that are provided by third parties based on information provided by management.

Management's estimate of the discount rates used for discounting the lease receivables and lease liabilities, which are based on assumptions surrounding the Town's incremental borrowing rates.

We have evaluated the key factors and assumptions used in determining that the estimates above are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. We do not feel any certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

## Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

## Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of auditing procedures were corrected by management:

1. To defer ARPA revenue received but not yet obligated for expenditures as of year-end:

Grant revenue	3,070,077
Deferred revenue	(3,070,077)
2. To reverse capital expenditures not yet incurred in the Stormwater fund as of year-end:

Accounts payable	70,632
Construction in process	(70,632)
3. To capitalize street resurfacing expenditures at the government-wide level:

Capital assets	533,773
Fixed asset contra account	(533,773)
4. Adjustment to client provided lease balances upon implementation of GASB 87:

Deferred inflows of resources, leases	53,446
Leases receivable	(53,446)
Leased assets	(218,729)
Leases payable	218,729

## Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

## Management Representations

We have requested certain written representations from management that are included in the management representation letter included at Appendix A.

## Management Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Town's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## Other Significant Matters, Findings, or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

On July 1, 2021, the Town adopted GASB 87, Leases. GASB 87 creates one model for recognizing leases for both lessees and lessors. Substantially all leases are recognized on the lessees' statement of net position. In the statement of activities, lessees no longer report rent expense for the previously classified operating leases but instead report interest expense on the liability and amortization expense

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related to the asset. Lessors recognize a lease receivable and corresponding deferred inflow of resources. Interest income associated with the receivable are recognized using the effective interest method.

Adoption of GASB 87 required significant time to identify a complete list of lease contracts for consideration of adoption and measure the lease assets and liabilities for recognition. In addition, due to adoption of the standard, the Town's key performance indicators related to the statement of net position (such as the current ratio) are likely not comparable to historical results.

This information is intended solely for the use of the Town Council and management of Town of Carrboro, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

**FORVIS, LLP**

High Point, NC

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## **Appendix A** Management Representation Letter