

Report to the Board of Aldermen of

# **The Town of Carrboro, North Carolina**



**DIXON HUGHES GOODMAN**<sup>LLP</sup>  
Certified Public Accountants and Advisors

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January 14, 2014

To the Board of Aldermen  
Town of Carrboro, North Carolina

We have audited the financial statements of the Town of Carrboro, North Carolina (the "Town") for the year ended June 30, 2013, and have issued our report thereon dated January 14, 2014. 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, *Government Auditing Standards*, and OMB Circular A-133, 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 April 29, 2013. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 1 to the financial statements. The Town adopted Statement of Governmental Accounting Standards (GASB Statement) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement 65, *Items Previously Reported as Assets and Liabilities* during 2013. The implementation of these standards had no impact on fund balance or net position that was previously reported. We noted no transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 estimates affecting the financial statements were:

Management's estimate of the allowance for doubtful accounts is based on historical collection experience and collateral. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of depreciable lives is based on the expected useful lives of individual capital assets. We evaluated the key factors and assumptions used to develop the depreciable lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of postretirement benefits is based on actuarial assumptions and projections that are provided by a third party based on information provided by management. We evaluated the key factors and assumptions used to develop the postretirement benefits in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of other postemployment benefits is based on actuarial assumptions and projections that are provided by a third party based on information provided by management. We evaluated the key factors and assumptions used to develop the other postemployment benefits in determining that it is reasonable in relation to the financial statements taken as a whole.

## **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. We did not detect any material misstatements as a result of our audit procedures.

## **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 representations from management that are included in the management representation letter dated January 14, 2014 which is included in the Appendix.

## Management Consultations with Other Independent 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 auditor’s 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 Audit 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.

## Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Sincerely,

*Dixon Hughes Goodman LLP*

*High Point, North Carolina*





DIXON HUGHES GOODMAN LLP

## Appendix - Management Representation Letter





# TOWN OF CARRBORO

NORTH CAROLINA

WWW.TOWNOFCARRBORO.ORG

January 14, 2014

Dixon Hughes Goodman LLP  
1829 Eastchester Drive  
High Point, North Carolina 27265

We are providing this letter in connection with your audit of the financial statements of the Town of Carrboro (the "Town"), which comprise the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information as of June 30, 2013, and the respective changes in financial position for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the 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. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of January 14, 2014, the following representations made to you during your audit.

## ***Financial Statements***

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated April 29, 2013 for the preparation and fair presentation of the financial statements and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the financial reporting entity.
3. 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates are reasonable.



6. Related-party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP
7. We have evaluated subsequent events through the date of this letter, which is the date the financial statements were available to be issued. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements, except as made known to you and disclosed in the notes to the financial statements.
8. You have recommended adjusting journal entries for the current year that have been posted to the Town's accounts. We are in agreement with and approve of those adjustments. We are not aware of any uncorrected misstatements and omitted disclosures noted by you during your audit.
9. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which the Town is contingently liable, if any, have been properly recorded or disclosed.

***Information Provided***

11. 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 and all audit or relevant monitoring reports, if any, received from funding sources.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of the Town or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal and state awards.
13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud affecting the Town 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.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the Town's financial statements received in communications from employees, former employees, analysts, regulators, or others.

16. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
17. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
18. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

***Government-Specific***

19. We have made available to you all financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
20. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
21. We have taken timely and appropriate steps to remedy fraud, violations of laws, regulations, contracts, or grant agreements, or abuse that you have reported to us.
22. We have a process to track the status of audit findings and recommendations.
23. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
24. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
25. The Town has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
26. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
27. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance, except as made known to you and disclosed in the notes to the financial statements.
28. As part of your audit, you assisted with preparation of the financial statements and related notes and schedule of expenditures of federal and state awards. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of expenditures of federal and state awards.

29. The Town has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as made known to you and disclosed in the notes to the financial statements.
30. The Town has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
32. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
33. The financial statements properly classify all funds and activities.
34. All funds that meet the quantitative criteria in GASBS No. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
35. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
36. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
37. Provisions for uncollectible receivables have been properly identified and recorded.
38. 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.
39. 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.
40. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
41. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
42. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
43. We have appropriately disclosed the Town'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 have determined that net position is properly recognized under the policy.

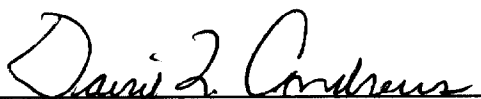
44. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
45. With respect to the individual fund statements, budgetary schedules and other schedules:
- a. We acknowledge our responsibility for presenting the individual fund statements, budgetary schedules and other schedules in accordance with accounting principles generally accepted in the United States of America, and we believe the individual fund statements, budgetary schedules and other schedules, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the individual fund statements, budgetary schedules and other schedules have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
  - b. If the individual fund statements, budgetary schedules and other schedules are 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 we issue the supplementary information and the auditor's report thereon.
46. We have evaluated the Town's ability to continue as a going concern and have included appropriate disclosures, as necessary, in the financial statements.
47. With respect to federal and state award programs:
- a. We are responsible for understanding and complying with and have complied with the requirements of the applicable requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, including requirements relating to preparation of the schedule of expenditures of federal and state awards.
  - b. We acknowledge our responsibility for presenting the schedule of expenditures of federal and state awards in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the schedule of expenditures of federal and state awards, including its form and content, is fairly presented in accordance with the Circular. The methods of measurement and presentation of the schedule of expenditures of federal and state awards have not changed from those used in the prior period, and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the schedule of expenditures of federal and state awards.
  - c. If the schedule of expenditures of federal and state awards 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 we issue the supplementary information and the auditor's report thereon.

- d. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and the State Single Audit Implementation Act and included in the schedule of expenditures of federal and state awards made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e. We are responsible for understanding and complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal and state program.
- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal and state programs that provides reasonable assurance that we are managing our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- g. We have made available to you all contracts and grant agreements (including amendments, if any), and any other correspondence with federal and state agencies or pass-through entities relating to each major federal and state program, and related activities.
- h. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- i. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- j. We have disclosed to you 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 up to the date of the auditor's report.
- k. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and the OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- l. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- m. We have made available to you all documentation related to the compliance requirements with the direct and material compliance requirements, including information related to federal and state program financial reports, and claims for advances and reimbursements.

- n. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- o. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- p. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance, have occurred subsequent to the date as of which compliance was audited.
- q. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- r. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal or state agency or pass-through entity, as applicable.
- s. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with the applicable laws and regulations, and have met the requirements of OMB Circular A-133 and the State Single Audit Implementation Act, except as disclosed by you.
- t. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements, and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.
- u. We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- v. We have charged costs to federal and state awards in accordance with applicable cost principles.
- w. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133, and we have provided you 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.
- x. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- y. We are responsible for preparing and implementing a corrective action plan for each audit finding.

We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

**TOWN OF CARRBORO, NORTH CAROLINA**

A handwritten signature in black ink, appearing to read "David L. Andrews", written over a horizontal line.

David L. Andrews  
Town Manager

A handwritten signature in black ink, appearing to read "Arche L. McAdoo", written over a horizontal line.

Arche L. McAdoo  
Finance Director