

To the Honorable Mayor and
Members of the City Council
City of Durham, North Carolina

Dear Council Members:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Durham, North Carolina (the "City"), for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, OMB Circular A-133, and the State Single Audit Implementation Act, 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 February 18, 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 City are described in the notes to the financial statements. The City was required to implement the following Statements in the current year:

- GASB Statement No. 60, *"Accounting and Financial Reporting for Service Concession Arrangements"*
- GASB Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements"*
- GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"*
- GASB Statement No. 64, *"Derivative Instruments: Application of Hedge Accounting Termination Provisions- an amendment of GASB Statement No. 53"*

The City also elected to early implement the following Statement in the current year:

- GASB Statement No. 61, *"The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34"*
- GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities"*
- GASB Statement No. 66, *"Technical Correction – 2012 - an amendment of GASB statements No. 11 and No. 62"*

The implementation of Statements 60, 61, 62, 64, and 66 did not have any material effect on the combined financial statements. The implementation of Statements 63 and 65 requires that certain assets and liabilities be classified as deferred outflows of resources and deferred inflows of resources. We are also not aware of any new accounting policies that were adopted in the current year, any changes in the application of existing policies, transactions entered into for which there is a lack of authoritative guidance or consensus, nor any significant transactions that have been recognized in the combined financial statements in a different period than when the transaction occurred.

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, depreciation expense, the Law Enforcement Separation Allowance Liability, the Post Employment Healthcare Benefit Plan Liability, the landfill liability, and the liability reported for risk management. These estimates were based on payment history, aging of accounts receivable, useful lives of fixed assets, and actuarial calculations.

We evaluated the key factors and assumptions used to develop these estimates to determine that they seemed reasonable in relation to the financial statements taken as a whole. Based upon our review each of the estimates appears reasonable at this time but there will usually be differences between records amounts and actual amounts and these differences may be material.

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. The City did not record capitalized interest for governmental activities in the current year. The amount was determined to be immaterial by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's 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 October 9, 2013.

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 an application of an accounting principle to the City'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 City's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

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 standards 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 City Council, management, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry Rickett LLP

Raleigh, North Carolina
October 9, 2013