

Audit Wrap Up & Presentation

City of Durham, North Carolina

October 28, 2013

Cherry Bekaert LLP

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Results of Our Audit

Audit of Financial Statements

We have completed our audit of the financial statements of the City for the year ended June 30, 2013.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

We are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements. The scope of the work performed was substantially the same as that described to you in our engagement letter.

We have issued an unmodified opinion on the Financial Statements.

Results of Our Audit (continued)

Internal Control Over Financial Reporting

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses

We have issued an unmodified opinion over the Internal Control over Financial Reporting.

Results of Our Audit (continued)

Internal Control Over Compliance

In accordance with *OMB Circular A-133, Audits of States, Local Governments, and Non-Profits*, and the State Single Audit Implementation Act we have also issued our report on our consideration of the City's compliance with requirements of laws, regulations, contracts and federal and State grants that could have a direct and material effect on the determination of the financial statement amounts. The purpose of the report is to describe the scope of our testing over compliance and the results of that testing, and not to provide an opinion on the internal control over compliance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

All records and information requested by Cherry Bekaert LLP were freely available for our inspection.

Management and other personnel provided full cooperation.

We issued an unmodified opinion on the Internal Control over Compliance.

The City received The Government Finance Officers Association (GFOA) Certificate of Achievement for the 6/30/12 financial statements. City has received the Certificate of Achievement for 28 consecutive years

Audit Areas of Focus

Primary Area of Focus	Procedures Performed
Compliance with new GAAP (GASB) regulations	Discussed with management and evaluated new accounting and reporting requirements to determine the extent these pronouncements affect the City. GASB statements No. 63 & 65 were implemented in the current year.
Cash and Investments	Cash reconciliations were inspected for accuracy and agreed to original bank statements
Receivables and Revenue	Analytically reviewed revenue and receivables and confirmed directly with revenue sources the amounts received in the current year.
Capital Assets	Obtained the fixed asset roll forward and capital outlay reconciliation and analytically reviewed depreciation expense.
Accounts Payable and Expenses	Search for unrecorded liabilities was performed to determine that all liabilities were reported at year end.
Accrued Expenses and Payroll	Analytical procedures were performed to determine that the fluctuation in payroll expense was consistent with the City's hiring activity.
Debt	Performed a roll forward of debt balances from prior year to current year, confirmed balances with the LGC and tested covenants for compliance.

Audit Areas of Focus (cont.)

Primary Area of Focus	Procedures Performed
Single audit	Performed test of compliance with grant agreements and certain laws and regulations.
Litigation	Discussed actual and threatened litigation with management and reviewed accounting detail and noted instances of recording of legal fees and obtained representations with respect to the effect of litigation on the financial statements.
Management's Judgments and Accounting Estimates	<p>Accounting estimates are an integral part of the financial statements and are based on management's current judgments. We believe that the following items represent significant judgmental areas that impact the City's financial reporting:</p> <ul style="list-style-type: none">• Collectability of receivables• Useful lives of assets• Law Enforcement Separation Allowance liability• OPEB liability• Landfill liability• Liabilities reported for risk management

Required Communications

Internal Control Over Financial Reporting

Cherry Bekaert is required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the City's internal controls over financial reporting. The definitions of material weakness, significant deficiencies and control deficiencies follow.

Category	Definition
Material Weakness	A deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.
Significant Deficiency	A deficiency, or 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.
Deficiency in 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.

In conjunction with our audit of the financial statements we did not note any material weaknesses or significant deficiencies.

Required Communications (cont.)

Matters Required to be Reported to Those Charged with Governance

Requirement	Discussion Points
Auditor's judgment about the quality of the City's accounting policies, estimates and financial statement disclosure	In accordance with applicable auditing standards, a discussion was held regarding the quality of financial reporting, which included the City's significant accounting practices, estimates and financial statement disclosures.
Critical accounting policies and practices	Please refer to Primary Areas of Focus in section two.
Adoption of a change in accounting principle	There were no situations involving the adoption of or a change in accounting principles where the application of alternative generally accepted accounting principles, including alternative methods of applying an accounting principle, would have a material effect on the City's financial statements.
Material, corrected misstatements brought to the attention of management by the auditor	There were no material misstatements detected as a result of our audit procedures required to be corrected by management.
Uncorrected misstatements, other than those the auditor believes to be trivial	There were one uncorrected misstatements detected as a result of our audit procedures. In the current and prior year, the City did not capitalize interest into construction projects. Approximately \$1.7 million of interest expense should have been capitalized in the prior year and approximately \$1.2 million should have been capitalized in the current year.
Disagreements with management	There were no disagreements with management on financial accounting and/or reporting matters and auditing procedures that, if not satisfactorily resolved, would cause a modification of our auditor's report.

Required Communications (cont.)

Matters Required to be Reported to Those Charged with Governance

Requirement	Discussion Points
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants, nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
Major issues discussed with management prior to retention	Prior to our being retained as auditor for the current fiscal year, there were no major accounting or other issues of concern discussed with management.
Significant issues discussed with management	Please refer to the Results of Our Audit in section two.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Representations requested from management	We have received a management representation letter be signed by management and provided to us.
Other issues arising from the audit the auditor considers significant and relevant to those charged with governance	The Clarity Standards were required to be implemented in the current year. Impact of these standards was the change in the wording of the auditor's report. There were no other issues arising from the audit that we consider significant and relevant to those charged with governance.
Material alternative accounting treatments discussed with management	There was no discussion with management concerning alternative accounting treatments.

Accounting Measurements & Metrics

Statement of Net Position

Assets increased by approximately \$71m or 4.6%. Approximately \$22.5m of that increase was related to capital assets due to ongoing capital projects, offset by current year depreciation. Cash (restricted and unrestricted) increased by approximately \$42m. Cash increased due to unspent bond proceeds at year end.

Liabilities increased by approximately \$34m or 6.4%. Most of that increase can be attributed to an increase in general obligation bonds from new issuances in the current year.

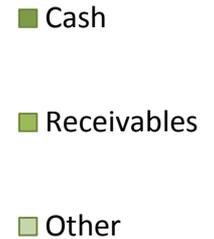
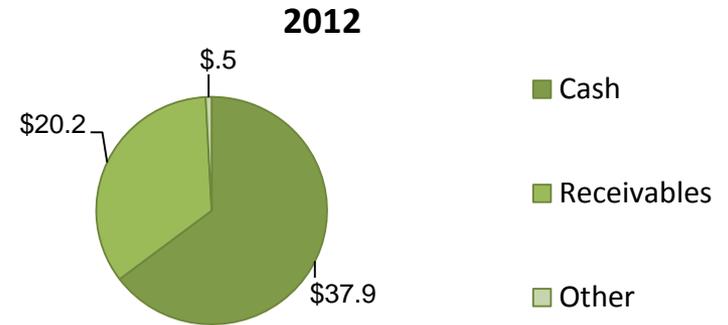
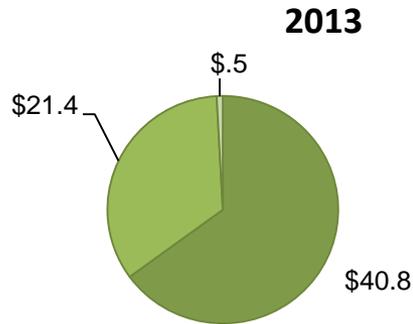
Statement of Activities

Governmental Activities: Total revenues increased approximately \$5.6m or 2.3%. Most of this increase is related to an increase in charges for service. Total expenses increased by approximately \$23.2M or 11.6%. Most of this increase was in general government due to an increase in bond issue costs from refunding debt issued in the current year.

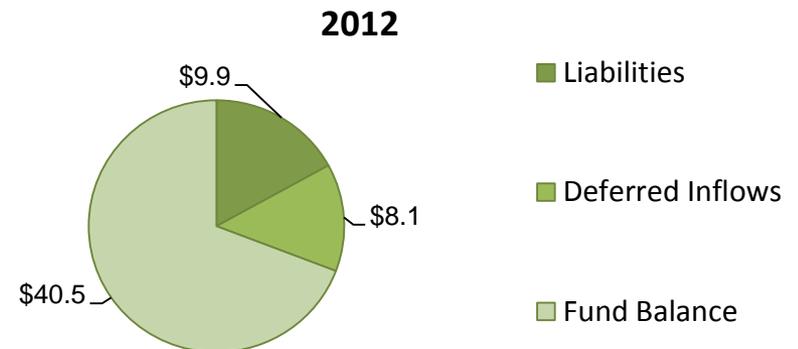
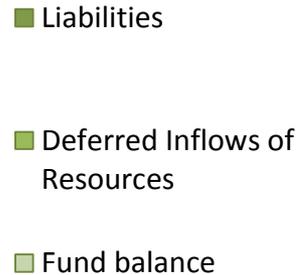
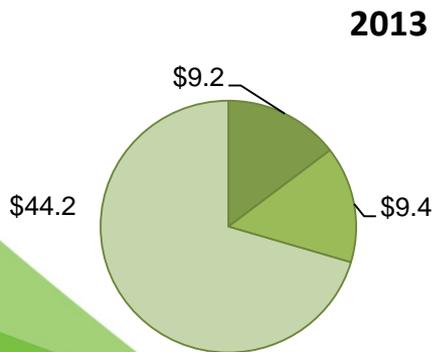
Business-type activities: Total revenues increased by \$1.5m or 1.1%, a very comparable result from the prior year. Total expenses decreased by approximately \$7.9m or 5.5%. Most of this decrease was related to a decrease in water and sewer related expenses.

Accounting Measurements & Metrics

ASSETS- General Fund (Modified Accrual Basis) (millions)



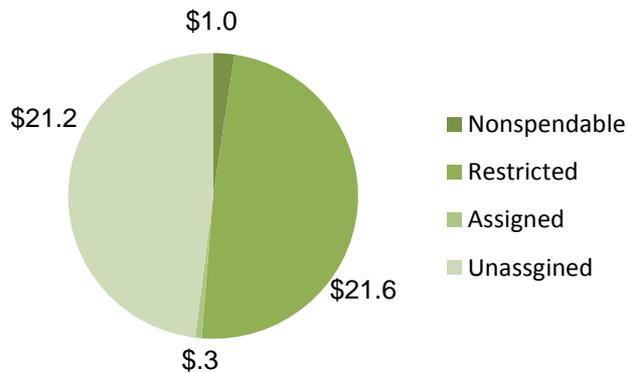
LIABILITIES AND FUND BALANCE- General Fund (Modified Accrual Basis) (millions)



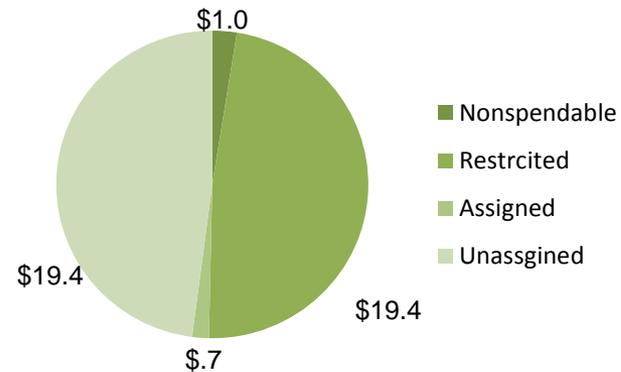
Accounting Measurements & Metrics

FUND BALANCE- General Fund (Modified Accrual Basis) (millions)

2013



2012



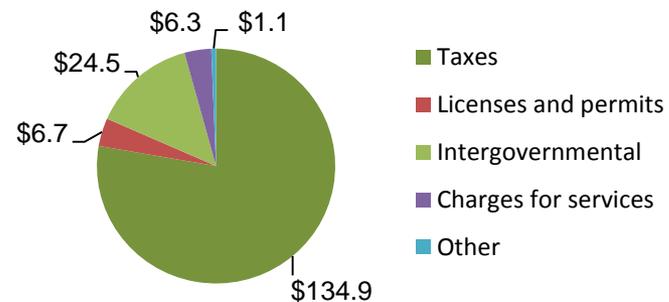
Accounting Measures & Metrics

REVENUES- General Fund (Modified Accrual Basis) (millions)

2013

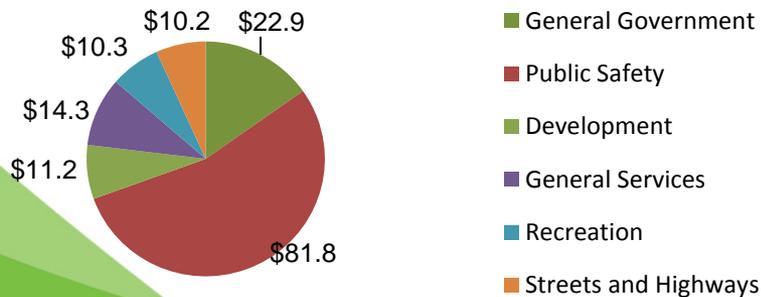


2012

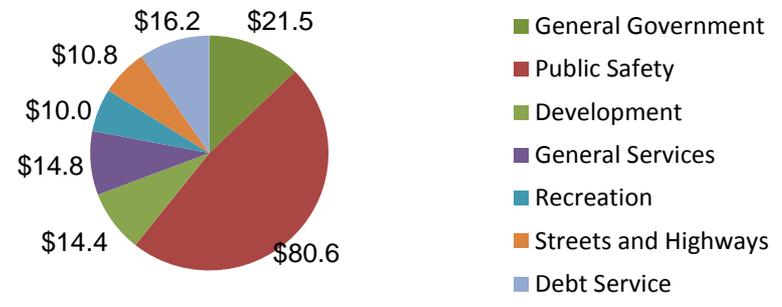


EXPENDITURES- General Fund (Modified Accrual Basis) (millions)

2013



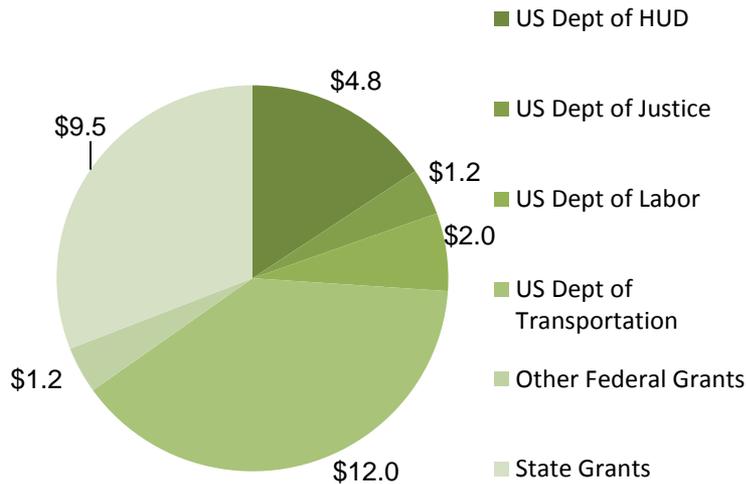
2012



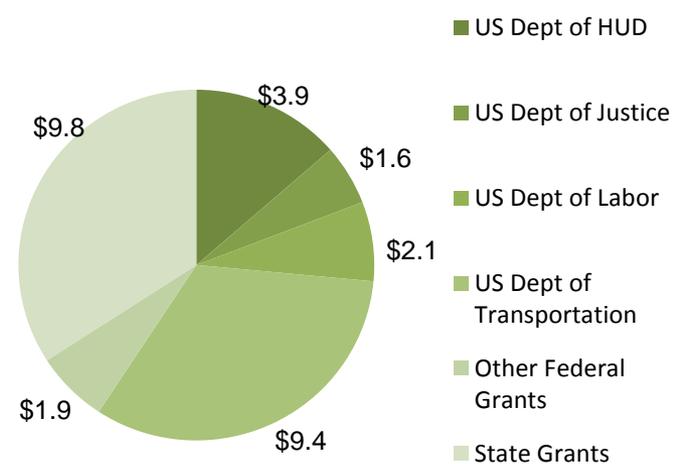
Accounting Measures & Metrics

Federal and State Program Expenditures (millions)

2013



2012



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