

November 4, 2003

To the Honorable Mayor and Members of the Town Council  
Town of Chapel Hill, North Carolina

This letter is intended to inform the Mayor and Members of the Town Council about significant matters related to the conduct of the annual audit so it can appropriately discharge its oversight responsibility and that we comply with our professional responsibilities to the Mayor and Members of the Town Council.

The following summarizes various matters which must be communicated to you under auditing standards generally accepted in the United States of America.

**A. The Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America**

Our audit of the basic financial statements of Town of Chapel Hill, North Carolina for the year ended June 30, 2003 was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the basic financial statements. We believe that our audit accomplished that objective.

In accordance with Government Auditing Standards, we have also performed tests of controls and compliance with laws and regulations that contribute to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the Town's internal control or compliance with laws and regulations.

**B. Significant Accounting Policies**

The Town Council has the ultimate responsibility for the appropriateness of the accounting policies used by the Town. The following is a description of the significant accounting policy and its application which was initially selected during the fiscal year.

In accordance with the Town's adoption of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the Town is required to provide a management's discussion and analysis that gives readers an analysis of the Town's overall financial position and results of the previous year's operations. The titles and formats of the financial statements changed significantly. Budgetary information is still provided in the financial statements, but this Statement requires the Town to provide the government's original budget as well as the final budget and actual results. A complete assessment of the effect of the adoption of the Statement is provided in the Town's basic financial statements as reconciliations of the general-purpose financial statements to the basic financial statements.

**C. Significant or Unusual Transactions**

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

**D. Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the preparation of the basic financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that they used all the relevant facts available to them at the time to make the best judgments about accounting estimates, and we considered this information in the scope of our audit. Estimates significant to the basic financial statements include unbilled services, lives for depreciable assets and accruals for vacation pay. The Town Council may wish to monitor throughout the year the process used to compute and record these accounting estimates.

**E. Significant Audit Adjustments**

There were two audit adjustments made to the original trial balance presented to us at the beginning of our audit. These adjustments, in our judgment, had no significant effect on the Town's financial reporting process.

**F. Other Information in Documents Containing Audited Financial Statements**

In connection with the Town's Comprehensive Annual Financial Report (CAFR), we did not perform any procedures or corroborate other information included in this report. However, we read the Town's CAFR and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the basic financial statements. Based on our reading, we concluded that the information did not require revision.

**G. Disagreements With Management**

We encountered no disagreement with management over the application of significant accounting principles, the basis of management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the basic financial statements.

**H. Consultations With Other Accountants**

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

**I. Major Issues Discussed With Management Prior to Retention**

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

**J. Difficulties Encountered in Performing the Audit**

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

**K. Material Contingencies**

The basic financial statements reflect no disclosures associated with material contingencies and there were no matters we believe should be disclosed as such.

## Closing

This letter is intended solely for the information and use of the Members of the Town Council and management and is not intended to be and should not be used by anyone other than these specified parties. We would be pleased to discuss further with you any of the matters set forth above, or any other matters that you would like to discuss.

*McGladrey & Pullen, LLP*