



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

In planning and performing our audit of the financial statements of the **Town of Chapel Hill, North Carolina** (the "Town") as of and for the year ended June 30, 2024, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

However, during our audit we became aware of three (3) matters that is an opportunity for strengthening internal controls and operating efficiency. This letter includes comments and suggestions with respect to the matters that came to our attention in connection with our audit of the financial statements of the Town as of and for the year ended June 30, 2024. A separate report dated November 15, 2024, contains our report on internal controls over financial reporting. This letter does not affect our report dated November 15, 2024, on the financial statements of the Town.

The following items is offered as a constructive suggestion to be considered as part of the ongoing process of modifying and improving the Town's practices and procedures:

1. **Accrued Interest on Long-term Debt** – During our testing of the Town's long-term debt activity as of and for the year ended June 30, 2024, we noted the Town has not historically recorded the liability for accrued interest payable. Generally accepted accounting principles (GAAP) require interest expense to be recorded during and for the period the long-term obligations are outstanding, including any accrual that should be made between when payments are due. We discussed this matter with management of the Town and, ultimately, the amounts were not material to the Town's financial statements because of other passed audit adjustments. However, we recommend the Town begin calculating the liability for accrued interest payable and recording the liability at year-end in the annual financial statements.
2. **Compensated Absences Calculation** – During our testing of the Town's liability for accrued compensated absences, we noted the Town is including future employer contributions to the Local Governmental Employees' Retirement System (LGERS) in its year-end liability. We discussed this matter with management of the Town and, ultimately, did not need to post a journal entry to correct the balances because of other passed audit adjustments. However, in the upcoming fiscal year when the Town is required to implement the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, the accrual for required contributions to a defined-benefit pension plan must be removed from the liability measured under the new standard.

3. **Stormwater Accounts Receivable** – During our testing and review of the accounts receivable balances reported by the Town in the Housing Fund and Stormwater Fund, we noted the Town records a minimal allowance for uncollectible accounts. Specific to the Stormwater Fund, we noted the Town is in the process of implementing a new database system to better track these receivable balances. In addition to this new system, we recommend the Town develop a formal process for estimating the allowance for uncollectible accounts.

Closing Thoughts

We have already discussed these comments and suggestions with various Town personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

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

We appreciate serving the Town of Chapel Hill, North Carolina and would be happy to assist you in addressing and implementing any of the suggestions in this letter.

Mauldin & Jenkins, LLC

Raleigh, North Carolina
November 15, 2024

