



REQUIRED COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Honorable Members of City Council
City of Roanoke, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Roanoke, Virginia, collectively hereafter referred to as the “City,” for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), 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 14, 2021. 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 Note 1 to the financial statements. As described in the notes to the financial statements, the City adopted a new accounting standard in 2021: GASB Statement No. 84, *Fiduciary Activities*. We noted no transactions entered into by the City 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 City’s financial statements were:

- The useful lives of capital assets and the allowance for uncollectible accounts are based on management’s knowledge and judgment, which is based on history.
- The other post-employment benefits liability is based on an actuarial study provided by the City’s external actuarial firm.
- The allowance for doubtful accounts is based on historical records and an analysis of the collectability of accounts.
- The self-insurance liability is based on information from an external third-party consultant and subsequent claims information provided by the insurance carrier.
- The net pension liability is based on actuarial studies performed by an actuary for the City’s plan and an actuary engaged by the Virginia Retirement System.

Your Success is Our Focus

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements include those related to:

- Capital assets, long-term debt, commitments and contingencies, pension, other post-employment liabilities, and the impact of COVID-19.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

The current year audit completion was delayed due to numerous changes that were made to the balances reported by the City in their general ledger. In addition, the Annual Comprehensive Financial Report went through several versions to incorporate changes and other auditor suggestions so that the statements would comply with accounting principles generally accepted in the United States of America. Please refer to the separately issued management letter for further discussion of these matters.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following audit adjustments were proposed, which were recorded by the City, indicate matters that had a significant effect on the City's financial reporting process.

Corrected Misstatements

- \$398,000 increase to beginning investment in capital assets and bond interest expense to correct beginning fund balance for the stormwater fund.
- \$826,000 decrease to deferred outflow for defeasance of debt, \$4.1 million decrease to deferred inflow for defeasance of debt with a corresponding \$3.2 million decrease to interest expense to remove unamortized defeasance of debt across several funds.
- \$7.2 million increase to unamortized bond premiums, \$506,000 decrease to deferred outflow from debt refundings, and \$7.7 million increase in interest expense related to the refunding and new issuance of bonds across funds.
- \$1.5 million increase to construction in progress and \$400,000 increase to equipment with a \$1.9 million corresponding decrease to expenditures for governmental assets.
- \$105,000 increase to infrastructure, \$74,000 increase to construction in progress, and \$179,000 decrease in capital outlay expenses for stormwater fund assets.

Significant Audit Findings (Continued)

Corrected and Uncorrected Misstatements (Continued)

Uncorrected Misstatements

- \$890,000 increase in gain on sale of property and a decrease in beginning net position for governmental asset sold in prior year.
- \$357,000 increase in state revenue with a corresponding decrease to beginning net position for the stormwater fund for understatement of revenue in the current period.
- \$106,000 increase to prepaid expense, \$61,000 increase to accounts receivable, \$11,000 increase to accounts payable, and \$156,000 increase to accrued liabilities for the civic facilities fund. This entry has no impact on net position.
- Unexplained overstatement variances in grants receivable and unearned revenue of approximately \$230,000 and \$900,000, respectively, for aggregate discretely presented component units.

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 disagreement 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 [REDACTED], 2022, a copy of which is attached.

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 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 auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

