

CONTRACT TO AUDIT ACCOUNTS

Of the Town of Carrboro, North Carolina

Governmental Unit and Discretely Presented Component Unit (DPCU) if applicable

On this 9th day of May, 2014,

Auditor: Dixon Hughes Goodman LLP

Auditor Mailing Address: _____

1829 Eastchester Drive, High Point, NC 27265

Hereinafter referred to as The Auditor

and the Board of Aldermen (Governing Board (s)) of the Town of Carrboro, North Carolina

: hereinafter referred to as the Governmental Unit (s), agree as follows:

Governmental Unit (s)

1. The Auditor shall audit all statements and disclosures required by generally accepted accounting principles (GAAP) and additional required legal statements and disclosures of all funds and/or divisions of the Governmental Unit (s) for the period beginning July 1, 2013, and ending June 30, 2014. The non-major combining, and individual fund statements and schedules shall be subjected to the auditing procedures applied in the audit of the basic financial statements and an opinion will be rendered in relation to (as applicable) the governmental activities, the business-type activities, the aggregate DPCU's, each major governmental and enterprise fund, and the aggregate remaining fund information (non-major government and enterprise funds, the internal service fund type, and the fiduciary fund types).

2. At a minimum, the Auditor shall conduct his/her audit and render his/her report in accordance with generally accepted auditing standards. The Auditor shall perform the audit in accordance with *Government Auditing Standards* if required by the State Single Audit Implementation Act, as codified in G.S. 159-34. If required by OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act, the Auditor shall perform a Single Audit. This audit and all associated workpapers may be subject to review by Federal and State agencies in accordance with Federal and State laws, including the staffs of the Office of State Auditor (OSA) and the Local Government Commission (LGC). If the audit and/or workpapers are found in this review to be substandard, the results of the review may be forwarded to the North Carolina State Board of CPA Examiners (NC CPA Board).

County and Multi-County Health Departments: The Office of State Auditor will designate certain programs that have eligibility requirements to be considered major programs in accordance with OMB Circular A-133 for the State of North Carolina. The LGC will notify the auditor and the County and Multi-Health Department of these programs. A County or a Multi-County Health Department may be selected to audit any of these programs as major.

3. If an entity is determined to be a component of another government as defined by the group audit standards - the entity's auditor will make a good faith effort to comply in a timely manner with the requests of the group auditor in accordance with AU-6 §600.41 - §600.42.

4. This contract contemplates an unqualified opinion being rendered. The audit shall include such tests of the accounting records and such other auditing procedures as are considered by the Auditor to be necessary in the circumstances. Any limitations or restrictions in scope which would lead to a qualification should be fully explained in an attachment to this contract.

5. If this audit engagement is subject to the standards for audit as defined in *Government Auditing Standards*, 2011 revisions, issued by the Comptroller General of the United States, then by accepting this engagement, the Auditor warrants that he has met the requirements for a peer review and continuing education as specified in *Government Auditing Standards*. The Auditor agrees to provide a copy of their most recent peer review report regardless of the date of the prior peer review report to the Governmental Unit and the Secretary of the LGC prior to the execution of the audit contract (See Item 22). **If the audit firm received a peer review rating other than pass**, the Auditor shall not contract with the Governmental Unit without first contacting the Secretary of the LGC for a peer review analysis that may result in additional contractual requirements.

If the audit engagement is not subject to Government Accounting Standards or if financial statements are not prepared in accordance with GAAP and fail to include all disclosures required by GAAP, the Auditor shall provide an explanation as to why in an attachment..

6. It is agreed that time is of the essence in this contract. All audits are to be performed and the report of audit submitted to the State and Local Government Finance Division (SLGFD) within four months of fiscal year end. Audit report is due on: October 31, 2014. If it becomes necessary to amend this due date or the audit fee, an amended contract along with a written explanation of the delay must be submitted to the Secretary of the LGC for approval.

Contract to Audit Accounts (cont.) the Town of Carrboro, North Carolina
Name of Governmental Unit and Discretely Presented Component Unit's (DPCU) if applicable

7. It is agreed that generally accepted auditing standards include a review of the Governmental Unit's systems of internal control and accounting as same relates to accountability of funds and adherence to budget and law requirements applicable thereto; that the Auditor will make a written report, which may or may not be a part of the written report of audit, to the Governing Board setting forth his findings, together with his recommendations for improvement. That written report must include all matters defined as "significant deficiencies and material weaknesses" in AU-C 265 of the *AICPA Professional Standards (Clarified)*. The Auditor shall file a copy of that report with the Secretary of the LGC.
8. All local government and public authority contracts for audit or audit-related work require the approval of the Secretary of the LGC. This includes annual or special audits, agreed upon procedures related to internal controls, bookkeeping or other assistance necessary to prepare the Governmental Unit's records for audit, financial statement preparation, any finance-related investigations, or any other audit-related work in the State of North Carolina. **Invoices for services rendered under these contracts shall not be paid by the Governmental Unit until the invoice has been approved by the Secretary of the LGC.** (This also includes any progress billings.) [G.S. 159-34 and 115C-447] All invoices for Audit work must be submitted by email in PDF format to the Secretary of the LGC for approval. The invoices must be sent to: lgc.invoice@nctreasurer.com. Subject line should read "Invoice – [Unit Name]. The PDF invoice marked 'approved' with approval date will be returned by email to the Auditor to present to the Governmental Unit for payment. Approval is not required on contracts and invoices for system improvements and similar services of a non-auditing nature.
9. In consideration of the satisfactory performance of the provisions of this contract, the Governmental Unit shall pay to the Auditor, upon approval by the Secretary of the LGC, the following fee, which includes any cost the Auditor may incur from work paper or peer reviews or any other quality assurance program required by third parties (Federal and State grantor and oversight agencies or other organizations) as required under the Federal and State Single Audit Acts:

Year-end bookkeeping assistance – [For audits subject to Government Auditing Standards, this is limited to bookkeeping services permitted by revised Independence Standards] N/A

Audit \$50,000 for the audit

Preparation of the annual financial statements \$3,000

Prior to submission of the completed audited financial report, applicable compliance reports and amended contract (if required) the Auditor may submit invoices for approval for services rendered, not to exceed 75% of the total of the stated fees above. If the current contracted fee is not fixed in total, invoices for services rendered may be approved for up to 75% of the prior year audit fee. **The 75% cap for interim invoice approval for this audit contract is \$ 39,750** **** NA if no interim billing**

10. If the Governmental Unit has outstanding revenue bonds, the Auditor shall include documentation either in the notes to the audited financial statements or as a separate report submitted to the SLGFD along with the audit report, a calculation demonstrating compliance with the revenue bond rate covenant. Additionally, the Auditor should be aware that any other bond compliance statements or additional reports required in the authorizing bond documents need to be submitted to the SLGFD simultaneously with the Governmental Unit's audited financial statements unless otherwise specified in the bond documents.
11. After completing the audit, the Auditor shall submit to the Governing Board a written report of audit. This report shall include but not be limited to the following information: (a) Management's Discussion and Analysis, (b) the financial statements and notes of the Governmental Unit and all of its component units prepared in accordance with GAAP, (c) supplementary information requested by the client or required for full disclosure under the law, and (d) the Auditor's opinion on the material presented. The Auditor shall furnish the required number of copies of the report of audit to the Governing Board as soon as practical after the close of the accounting period.
12. If the audit firm is required by the NC CPA Board or the Secretary of the LGC to have a pre-issuance review of their audit work, there must be a statement added to the engagement letter specifying the pre-issuance review including a statement that the Governmental Unit will not be billed for the pre-issuance review. The pre-issuance review must be performed **prior** to the completed audit being submitted to the LGC. The pre-issuance report must accompany the audit report upon submission to the LGC.
13. The Auditor shall electronically submit the report of audit to the LGC when (or prior to) submitting the invoice for services rendered. The report of audit, as filed with the Secretary of the LGC, becomes a matter of public record for inspection, review and copy in the offices of the SLGFD by any interested parties. Any subsequent revisions to these reports must be sent to the Secretary of the LGC. These audited financial statements are used in the preparation of official statements for debt offerings (the Auditors' opinion is not included) by municipal bond rating services to fulfill secondary market disclosure requirements of the Securities and Exchange Commission and other lawful purposes of the Governmental Unit without subsequent consent of the

Contract to Audit Accounts (cont.)**the Town of Carrboro, North Carolina**

Name of Governmental Unit and Discretely Presented Component Unit's (DPCU) if applicable

Auditor. If it is determined by the LGC that corrections need to be made to the Governmental Unit's financial statements, they should be provided within three days of notification unless, another time frame is agreed to by the LGC.

If the OSA designates certain programs to be audited as major programs, as discussed in item #2, a turnaround document and a representation letter addressed to the OSA shall be submitted to the LGC.

The LGC's process for submitting contracts, audit reports and Invoices is subject to change. Auditors should use the submission process in effect at the time of submission. The most current instructions will be found on our website: <https://www.nctreasurer.com/slg/Pages/Audit-Forms-and-Resources.aspx>

14. Should circumstances disclosed by the audit call for a more detailed investigation by the Auditor than necessary under ordinary circumstances, the Auditor shall inform the Governing Board in writing of the need for such additional investigation and the additional compensation required therefore. Upon approval by the Secretary of the LGC, this contract may be varied or changed to include the increased time and/or compensation as may be agreed upon by the Governing Board and the Auditor
15. If an approved contract needs to be varied or changed for any reason, the change must be made in writing, signed and dated by all parties and pre-audited if the change includes a change in audit fee. This document and a written explanation of the change must be submitted by email in PDF format to the Secretary of the LGC for approval. The portal address to upload your amended contract and letter of explanation documents is <http://nctreasurer.slgfd.leapfile.net> No change shall be effective unless approved by the Secretary of the LGC, the Governing Board, and the Auditor.
16. Whenever the Auditor uses an engagement letter with the Governmental Unit, Item #17 is to be completed by referencing the engagement letter and attaching a copy of the engagement letter to the contract to incorporate the engagement letter into the contract. In case of conflict between the terms of the engagement letter and the terms of this contract, the terms of this contract will control. Engagement letter terms are deemed to be void unless the conflicting terms of this contract are specifically deleted in Item #23 of this contract. Engagement letters containing indemnification clauses will not be approved by the LGC.
17. Special provisions should be limited. Please list any special provisions in an attachment. See attached engagement letter.
18. A separate contract should not be made for each division to be audited or report to be submitted. If a DPCU is subject to the audit requirements detailed in the Local Government Budget and Fiscal Control Act and a separate audit report is issued, a separate audit contract is required. If a separate report is not issued and the DPCU is included in the primary government audit, the DPCU must be named along with the parent government on this audit contract. Signatures from the DPCU Board chairman and finance officer also must be included on this contract.
19. The contract must be executed, pre-audited, physically signed by all parties including Governmental Unit and Auditor signatures and submitted in PDF format to the Secretary of the LGC. The current portal address to upload your contractual documents is <http://nctreasurer.slgfd.leapfile.net> Electronic signatures are not accepted at this time. Included with this contract are instructions to submit contracts and invoices for approval as of April, 2014. These instructions are subject to change. Please check the NC Treasurer's web site at www.nctreasurer.com for the most recent instructions.
20. The contract is not valid until it is approved by the LGC Secretary. The staff of the LGC shall notify the Governmental Unit and Auditor of contract approval by email. The audit should not be started before the contract is approved.
21. There are no other agreements between the parties hereto and no other agreements relative hereto that shall be enforceable unless entered into in accordance with the procedure set out herein and approved by the Secretary of the LGC.
22. Municipal & County Contracts: The Auditor acknowledges that any private employer transacting business in this State who employs 25 or more employees in this State must, when hiring an employee to work in the United States, use E Verify to verify the work authorization of the employee in accordance with N.C.G.S. §64 26(a). The Auditor acknowledges further that any such private employer and its subcontractors must comply with all of the requirements of Article 2 of Chapter 64 of the North Carolina General Statutes (North Carolina's E-verify law), and that such private employer has a duty under the law to ensure compliance by its subcontractors. The Auditor further acknowledges that this contract is of the type governed by S.L. 2013-418, which makes it unlawful for a local government to enter into certain types of contracts unless the contractor and its subcontractors comply with North Carolina's E-verify law, and that failure to comply with such law could render this contract void. The Auditor hereby covenants, warrants and represents for itself and its subcontractors that with respect to this contract the Auditor and its subcontractors shall comply with the provisions of North Carolina's E-verify law and that failure to comply with such law shall be deemed a breach of this contract and may render this contract void.
23. All of the above paragraphs are understood and shall apply to this contract, except the following numbered paragraphs shall be deleted: (See Item 16 for clarification).

Contract to Audit Accounts (cont.) the Town of Carrboro, North Carolina
Name of Governmental Unit and Discretely Presented Component Unit's (DPCU) if applicable

Communication regarding audit contract requests for modification or official approvals will be sent to the email addresses provided in the spaces below.

Audit Firm Signature:

Dixon Hughes Goodman LLP

Name of Audit Firm

By John A. Frank, CPA

Authorized Audit firm representative name: Type or print



Signature of authorized audit firm representative

John.Frank@dhgllp.com

Email Address of Audit Firm:

Date May 9, 2014

Governmental Unit Signatures:

By Lydia Lavelle, Mayor

Mayor / Chairperson: Type or print name and title

Signature of Mayor/Chairperson of governing board

Date

By

DPCU Chairperson: Type or print name and title

Signature of Chairperson of DPCU if applicable

Date

Unit Signatures (continued):

By

Chair of Audit Committee - Type or print name

Signature of Audit Committee Chairperson

Date

** If Governmental Unit has no audit committee, this section should be marked "N/A." **

PRE-AUDIT CERTIFICATE: Required by G.S. 159-28 (a)

This instrument has been preaudited in the manner required by The Local Government Budget and Fiscal Control Act or by the School Budget and Fiscal Control Act. Additionally, the following date is the date this audit contract was approved by the governing body.

By Arche McAdoo

Governmental Unit Finance Officer: Type or print name

Finance Officer Signature

amcadoo@townofcarrboro.org

Email Address of Finance Officer

Date

(Pre-audit Certificate **must be dated.**)

Date Governing Body Approved Audit Contract - G.S. 159-34(a)

Board Approval Date – Primary Government

Board Approval Date - DPCU



DIXON HUGHES GOODMAN^{LLP}
Certified Public Accountants and Advisors

May 9, 2014

Board of Aldermen
Town of Carrboro
301 West Main Street
Carrboro, North Carolina 27510

We are pleased to confirm our understanding of the services we are to provide for the Town of Carrboro, (the "Town") for the year ending June 30, 2014. This attachment to item 17, "Contract to Audit Accounts" (LGC-205) is intended to further clarify certain provisions of the Contract.

AUDIT SERVICES

We will audit the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, including the related notes to the financial statements, which collectively comprise the basic financial statements, of the Town as of and for the year ending June 30, 2014.

AUDIT OBJECTIVES

The objective of our audit is the expression of opinions as to whether the Town's financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The objective also includes reporting on:

- Internal control related to the financial statements and compliance with laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with Single Audit Act Amendments of 1996 and Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* ("OMB Circular A-133") and the *State Single Audit Implementation Act*.

The reports on internal control and compliance will each include a paragraph that states that the purpose of the report is solely to describe (1) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance; (2) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance; and (3) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance; and, OMB Circular A-133 and the *State Single Audit Implementation Act* in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose. If during our audit

we become aware that the Town is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with auditing standards generally accepted in the United States of America, and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of OMB Circular A-133; and the *State Single Audit Implementation Act*, and will include tests of accounting records, a determination of major program(s) in accordance with Circular A-133 and the *State Single Audit Implementation Act*, and other procedures we consider necessary to enable us to express such an opinion. If our opinions on the financial statements or the Single Audit compliance opinions are other than unmodified, we will discuss the reasons with Management in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

AUDIT PROCEDURES - GENERAL

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is an unavoidable risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures may include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of certain assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We may request written representations from the Town's attorneys as part of the engagement, and they may bill the Town for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from management about the financial statements and related matters. Because of the importance of management's written or verbal representations to an effective audit, Management agrees to release Dixon Hughes Goodman LLP and its personnel from any liability and costs relating to our services under this letter attributable to any misrepresentations by management.

AUDIT PROCEDURES - INTERNAL CONTROLS

Our audit includes obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly we will express no such opinion. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to Management and those charged with governance internal control related matters that are required to be communicated under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, OMB Circular A-133 and the *State Single Audit Implementation Act*.

As required by OMB Circular A-133 and the *State Single Audit Implementation Act*, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal and state award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133 and the *State Single Audit Implementation Act*.

AUDIT PROCEDURES - COMPLIANCE

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Town's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 and the *State Single Audit Implementation Act* require that we also plan and perform the audit to obtain reasonable assurance about whether the Town has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina* for the types of compliance requirements that could have a direct and material effect on each of the Town's major programs. The purpose of these procedures will be to express an opinion on the Town's compliance with requirements applicable to each of its major programs in our reports on compliance issued pursuant to OMB Circular A-133 and the *State Single Audit Implementation Act*.

MANAGEMENT'S RESPONSIBILITIES

Management is responsible for designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including monitoring ongoing activities; for the selection and application of accounting principles; and for the preparation and for the fair presentation in the financial statements of the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town and the respective changes in financial position in conformity with accounting principles generally accepted in the United States of America; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements. The responsibility for the financial statements and all representations contained therein remains with management and those charged with governance, which includes officers and directors of the Town. Management is also responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements.

Management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Management is also responsible for providing us with access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation and other matters. Management also agrees to provide us with any additional information that we may request from management for the purpose of the audit as well as unrestricted access to any person within the Town from whom we determine it necessary to obtain audit evidence. Because this engagement qualifies as a group audit Management agree to facilitate unrestricted access to information related to components of the County as well as persons at components (including management and those charged with governance) and component auditors. Management's responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Management's responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information.

Management is responsible for the design, implementation and maintenance of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the Town involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Management's responsibilities include informing us of Management's knowledge of any allegations of fraud or suspected fraud affecting the Town received in communications from employees, former employees, grantors, regulators, or others. In addition, Management is responsible for identifying and ensuring that the Town complies with applicable laws and regulations, contracts, agreements, and grants for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report. As required by OMB Circular A-133 and the *State Single Audit Implementation Act*, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a Summary Schedule of Prior Audit Findings and a Corrective Action Plan if necessary.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the "Audit Objectives" section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. Management is also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as Management's planned corrective actions, for the report, and for the timing and format for providing that information.

We understand that the Town's employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing.

REQUIRED SUPPLEMENTARY INFORMATION

Our audit is for the purpose of forming an opinion on the financial statements taken as a whole. Accounting principles generally accepted in the United States ("GAAP") provide for certain required supplementary information ("RSI") to accompany the basic financial statements. We understand the following RSI will accompany the basic financial statements:

1. Management's Discussion and Analysis ("MD&A")
2. Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress
3. Law Enforcement Officers' Special Separation Allowance - Schedule of Employer Contributions
4. Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance
5. Other Postemployment Benefits - Schedule of Funding Progress
6. Other Postemployment Benefits - Schedule of Employer Contributions
7. Notes to the Required Schedules for Other Postemployment Benefits

Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

The Town's management is responsible for the fair presentation of the RSI. As part of our engagement, we will apply certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

SUPPLEMENTARY INFORMATION

We understand that the following supplementary information other than RSI will accompany the basic financial statements:

1. Combining non-major fund statements, if applicable;
2. Budgetary schedules for all funds required to adopt a budget other than the General Fund and annually adopted major special revenue funds;
3. Schedule of Ad Valorem Taxes Receivable;
4. Analysis of Current Tax Levy - Town-Wide Levy; and
5. Schedule of Expenditures of Federal and State Awards.

Such information is presented for the purpose of additional analysis of the financial statements and is not a required part of the basic financial statements. The Town's management is responsible for the fair presentation of the supplementary information. We will subject the supplementary information to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the accounting and other records used to prepare the financial statements or to the financial statements themselves in accordance with auditing standards generally accepted in the United States of America.

Your responsibilities include acknowledging to us in the written representation letter that (a) Management is responsible for presentation of the supplementary information in accordance with GAAP; (b) that Management believes the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (c) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (d) Management has disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Our responsibility is to report whether such information is fairly stated in all material aspects in relation to the basic financial statements taken as a whole. Management agrees to include our report on the supplementary information other than RSI in any document that contains, and indicates that we have reported on, the supplementary information other than RSI. Management also agrees to include the audited financial statements with any presentation of the supplementary information other than RSI that includes our report thereon OR make the audited financial statements readily available to users of the supplementary information other than RSI no later than the date the supplementary information other than RSI is issued with our report thereon.

OTHER INFORMATION

Our audit is for the purpose of forming an opinion on the basic financial statements taken as a whole. We understand the Town will prepare an introductory section and statistical section. Such information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Town's management is responsible for such information. We will not subject such information to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we will not express an opinion or provide any assurance on it.

MANAGEMENT'S RESPONSIBILITY FOR NONATTEST SERVICES

Management agrees to assume all management responsibilities and to oversee the nonattest services we will provide by designating an individual possessing suitable skill, knowledge and/or experience. Management is responsible for evaluating the adequacy and results of the services performed and accepting responsibility for the results of such services. Management is responsible for designing, implementing, and maintaining internal controls.

We will provide the following nonattest services:

- We will assist with preparation of the Town's financial statements, Schedule of Expenditures of Federal and State Awards, and related notes.
- We will advise management about appropriate accounting principles and their application and will assist in preparation of the Town's basic financial statements. The responsibility for the basic financial statements and all representations contained therein remains with management, which includes members of the governing board.
- At the conclusion of the engagement, we will complete the appropriate sections of and sign the Data Collection Form that summarizes our audit findings. We will provide to management the required electronic copy of the financial reporting package (including the basic financial statements, Schedule of Expenditures of Federal and State Awards, auditors' reports on internal controls and compliance, Schedule of Findings and Questioned Costs, Corrective Action Plan (if required) and a Summary Schedule of Prior Audit Findings (if required) along with the Data Collection Form) to be uploaded on the federal clearinghouse's website, if applicable.
- At the conclusion of the engagement, we will upload the audited financial statements and compliance reports on the North Carolina State Treasurer's website.
- We will compile financial statement data for inclusion in the Annual Financial Information Report (AFIR).

Management is responsible for evaluating the adequacy and results of the above nonattest services performed and accepting responsibility for the results of such services. This includes Management's review and approval of all adjustments we may propose to the accounting records of the Town or its financial statements as a result of these services.

USE OF FINANCIAL STATEMENTS

If the Town's financial statements are to be included in a client prepared document, other than the Town's *Comprehensive Annual Financial Report*, which includes other information, the Town should notify us of the nature of the document and allow us to read such document prior to submitting the document to others. An example of another document would be an official statement in connection with a public debt offering.

AUDIT ADMINISTRATION, FEES AND OTHER

The audit documentation for this engagement is the property of Dixon Hughes Goodman LLP and constitutes confidential information. However, we may be requested to make certain audit documentation available to the U.S. Department of Health and Human Services or its designee, a federal agency providing direct or indirect funding, applicable federal and state agencies including the U.S. Government Accountability Office or North Carolina Office of the State Auditor pursuant to authority given to it by law or regulation. If requested, access to such audit documentation will be provided under the supervision of Dixon Hughes Goodman LLP personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

This engagement is limited to the services outlined above. We will perform all services in accordance with applicable professional standards.

John Frank is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign. We plan to begin our audit work in August 2014.

Our fee for these services will be \$50,000 for the audit and \$3,000 for preparation of the financial statements. This fee is based on the assumption there will be no significant changes in the Town's operations including (but not limited to): issuance of new debt; new construction projects; creation of new funds; new or "State Mandated" major programs required to be tested for Single Audit; or additional procedures required in response to the discovery of fraud. We will issue contract addendums for additional fees related to changes mentioned above. The additional fees will be billed at our standard hourly rates depending on the experience level of the individuals performing the work.

Progress billings will be submitted to the North Carolina Office of the State Treasurer for approval and then mailed to the Town. All invoices are payable upon presentation.

Many of our clients choose to communicate with us by email, and we may use email in connection with this engagement unless Management directs us otherwise. We will use reasonable precautions to protect the Town's confidential information, but we have no obligation to employ any measures that the Town does not regularly employ in protecting the Town's confidential information. As emails can be intercepted and read, disclosed, or otherwise used or communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed, we cannot guarantee or warrant that email from us will be properly delivered and read only by the addressee. Therefore, we specifically disclaim any liability or responsibility whatsoever for interception or unintentional disclosure or communication of email transmissions, or for the unauthorized use or failed delivery of emails transmitted by us in connection with the performance of this engagement or the disclosure or communication of confidential or proprietary information arising therefrom (hereinafter collectively referred to as "Email Interruption"). Management agrees that we shall have no liability for any loss or damage to any person or entity resulting from related to any Email Interruption, including any consequential, incidental, direct, indirect, or special damages, such as loss of revenues of anticipated profits, and Management hereby forever releases us from any such liability and shall indemnify us from any claim related thereto.

Board of Aldermen
Town of Carrboro
May 9, 2014
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This agreement and any claim arising out of the services provided shall be governed by the laws of the state of North Carolina, exclusive of its conflict of laws rules. The parties agree that any action between them related to or arising out of this engagement shall be brought only in the state or federal courts of North Carolina.

Whenever possible, each provision of this agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision hereof shall be ineffective, or invalid, such ineffectiveness or invalidity shall be only to the extent of such prohibition or invalidity, without invalidating the remainder of the provision or the remaining provisions of this agreement, which shall otherwise remain in full force and effect. The agreements of the Town of Carrboro and Dixon Hughes Goodman LLP contained in the Contract to Audit Accounts and this attachment shall survive the completion or termination of this engagement.

Government Auditing Standards require that we provide Management with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2011 peer review report accompanies this letter.

We appreciate the opportunity to be of service to Town of Carrboro and believe this letter accurately summarizes the significant terms of our engagement. If Management has any questions, please let us know. If Management agrees with the terms of our engagement as described in this letter, please sign the enclosed copy and the Contract to Audit Accounts and return it to us.

Very truly yours,



Dixon Hughes Goodman LLP

JAF/vll

Enclosure

ACKNOWLEDGED:

This letter correctly sets forth the understanding of the Town of Carrboro.

By: _____
Lydia Lavelle, Mayor

Date: _____

This instrument has been pre-audited in the manner required by the Local Government Budget and Fiscal Control Act.

Arche McAdoo, Finance Officer

AICPA Peer Review Program
Administered by the
National Peer Review Committee

December 9, 2011

Charles E Sams Jr, CPA
Dixon Hughes Goodman LLP
1829 Eastchester Dr
High Point, NC 27265

Dear Mr. Sams:

It is my pleasure to notify you that on December 8, 2011 the National Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is August 31, 2014. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,



Betty Jo Charles
Chair—NPRC
nprc@aicpa.org 919 402-4502

cc: Candace Wright, CPA

Firm Number: 10017108 Review Number: 319553



A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
www.pncpa.com

System Review Report

To the Partners of Dixon Hughes Goodman LLP
And the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Dixon Hughes Goodman LLP (the firm) applicable to non-SEC issuers in effect for the year ended February 28, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans and audits performed under FDICIA.

In our opinion, the system of quality control for the accounting and auditing practice of Dixon Hughes Goodman LLP in effect for the year ended February 28, 2011, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Dixon Hughes Goodman LLP has received a rating of *pass*.

Postlethwaite & Netterville

Baton Rouge, Louisiana
October 6, 2011