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May 27, 2021

Town Council and Management
Town of Carrboro
301 W. Main Street
Carrboro, North Carolina 27510

We are pleased to confirm our understanding of the services we are to provide for Town of Carrboro (the "Town") for the year ending June 30, 2021. This attachment to item 18, "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 business-type activities, the discretely presented component unit, 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 year ending June 30, 2021.

John Frank is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it. We plan to begin our audit work in June 2021.

Audit Objective

The objective of our audit is the expression of an opinion about 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 the provisions of 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 the Single Audit Act, as amended, Title 2 U.S. Code of Federal Regulations (“CFR”) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”) and the State Single Audit Implementation Act (collectively referred to as the “Single Audit”).

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states that:

- The purpose of the report is solely to describe the scope of testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance;
- The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance; and
- The report is not suitable for any other purpose.

The Uniform Guidance report on internal control over compliance will include a paragraph that states that:

- The purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance the results of that testing based on the requirements of the Uniform Guidance; and
- 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 Single Audit Act; and the provisions of the Uniform Guidance, and will include tests of accounting records, a determination of major programs in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express such an opinion. We will issue written reports upon completion of our audits. Our reports will be addressed to the governing board of the Town. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph. If our opinion on the financial statements or the Single Audit is other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or issue reports, or we may withdraw from this engagement.

Audit Procedures

General

We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Town or to acts by management or employees acting on behalf of the Town. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

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;
- 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.

Our procedures may include:

- Tests of documentary evidence supporting the transactions recorded in the accounts,
- Direct confirmation of certain assets and liabilities by correspondence with selected individuals, customers, funding sources, creditors, and financial institutions,
- Requesting written representations from the Town's attorneys (they may bill the Town for responding to this inquiry).

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, fraudulent financial reporting, or misappropriation of assets that come to our attention;
- Violations of laws or governmental regulations that come to our attention, unless clearly inconsequential;
- Material abuse that comes to our attention.

We will include such matters in the reports required for our 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.

Internal Control

Our audit will include obtaining an understanding of the Town 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. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements, and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by the Uniform Guidance, we will test 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 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 the Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. Accordingly, we will express no such opinion. However, during the audit, we will communicate to you and those charged with governance internal control-related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, the Uniform Guidance and State Single Audit Implementation Act.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free from 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*.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable federal statutes, regulations, and the terms and conditions of federal awards applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Compliance Supplement* 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 report on compliance issued pursuant to the Uniform Guidance.

Management's Responsibilities

Our audit will be conducted on the basis that you acknowledge and understand that you have responsibility for:

- The preparation and fair presentation of the financial statements, schedule of expenditures of federal and state awards, and all accompanying information in conformity with accounting principles generally accepted in the United States of America and the Uniform Guidance;
- The selection and application of accounting principles, the maintenance of adequate records, the safeguarding of assets, and ensuring that management and financial information is reliable and properly reported;
- The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including internal controls over federal and state awards, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met;
- Implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements;
- Following and complying with applicable laws and regulations (including federal statutes), including the provisions of contracts and grant agreements (including award agreements);
- Ensuring that there is reasonable assurance that government programs are administered in compliance with compliance programs;
- Identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information;
- Providing us with:
 1. Access to all information which you are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters including identification of all related parties and all related-party relationships and transactions;
 2. Access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under the Uniform Guidance
 3. Additional information that we may request for the purpose of the audit; and
 4. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
- Facilitating unrestricted access to information related to components of the Town as well as persons at components (including management and those charged with governance) and component auditors;

- 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;
- Including the auditor's report in any document containing financial statements that indicates that such financial statements have been audited by us;
- Identifying all federal and state awards received and understanding and complying with the compliance requirements and for the preparation of the schedule of expenditures of federal and state awards (including notes and noncash assistance received) in conformity with the Uniform Guidance;
- Evaluating and monitoring noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; taking prompt action when instances of noncompliance are identified including noncompliance identified in audit findings; promptly following up and taking corrective action on reported audit findings; and preparing a summary schedule of prior audit findings and a separate corrective action plan, if applicable;
- Establishing and maintaining a process for tracking the status of audit findings and recommendations. You are also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objective section of this letter. This responsibility includes:
 1. Relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies; and
 2. Providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions for the report, and for the timing and format for providing that information.
- Taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report;
- The design and implementation of programs and controls to prevent and detect fraud, and for informing us of any known or suspected fraud affecting the entity involving management, employees with significant role in internal control, grantors, regulators, and others where fraud could have a material effect on the financial statements;
- The accuracy and completeness of all information provided; and
- Informing us of events occurring or facts discovered subsequent to the date of the financial statements, of which management may become aware, that may affect the financial statements.

We understand that your employees will prepare all confirmations we request and will locate any documents or support for any other transactions we select for testing.

At the conclusion of our audit, we will require certain written representations from management about management's responsibilities for the financial statements; schedule of expenditures of federal and state

awards; federal and state award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards. Because of the importance of management's written or verbal representations to an effective audit, you agree to release and indemnify Dixon Hughes Goodman LLP and its personnel from any liability and costs relating to our services under this letter attributable to any knowing misrepresentations by management.

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 of America 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. Other Postemployment Benefits - Changes in Total OPEB Liability and Related Ratios
3. Law Enforcement Officers' Special Separation Allowance - Schedule of Changes in Total Pension Liability
4. Law Enforcement Officers' Special Separation Allowance - Schedule of Total Pension Liability as a Percentage of Covered Payroll
5. Local Government Employees' Retirement System - Schedule of Proportionate Share of the Net Pension Liability (Asset)
6. Local Government Employees' Retirement System - Schedule of Contributions

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

Our audit is for the purpose of forming an opinion on the financial statements taken as a whole. We understand that the following supplementary information will accompany the financial statements.

1. Combining non-major fund statements.
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 Expenditures of Federal and State Awards
4. Schedule of Ad Valorem Taxes Receivable
5. Analysis of Current Tax Levy - Town-wide Levy

Such information is presented for the purpose of additional analysis of the financial statements and is not a required part of the 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) you are responsible for presentation of the supplementary information in accordance with the applicable criteria; (b) you believe the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria; (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) you have 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 respects in relation to the basic financial statements taken as a whole. You agree to include our report on supplementary information in any document that contains and indicates that we have reported on the supplementary information. You agree to include the audited financial statements with any presentation of the supplementary information or make the audited financial statements readily available to users of the supplementary information that includes our report thereon.

Other Information

Our audit is for the purpose of forming an opinion on the financial statements taken as a whole. We understand that the Town will prepare additional schedules for inclusion in the Comprehensive Annual Financial Report. 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 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.

Use of Financial Statements

Client Prepared Documents

If the Town's financials are to be included in a client-prepared document 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. Examples of other documents would include:

- reports to those charged with governance or others which provide commentary on the financial position or results of operations,
- private placement offerings, or
- other offers to sell securities.

Exempt Offerings

Should the Town wish to include our audit report on the financial statements described above in a document related to an offering of securities exempt from registration with the Securities and Exchange Commission ("SEC"), but does not intend to engage us to perform procedures in connection with the proposed offering (beyond reading the document as required in the preceding paragraph), the Town agrees that the following disclosure will be prominently displayed in the official statement or other document for the proposed offering:

Dixon Hughes Goodman LLP, has not been engaged to perform and has not performed, since the date of their report included herein, any procedures on the financial statements addressed in that report. Dixon Hughes Goodman LLP, also has not performed any procedures relating to this Official Statement.

Should the Town wish to include or incorporate by reference our report on these financial statements into a future offering of securities exempt from registration with the SEC, and requests or is required to obtain our acknowledgement to including our report in such filing or other offering document, prior to our acknowledging to include or incorporate by reference our report thereon, we will be required to perform procedures as indicated by our professional standards, including, but not limited to, reading other information incorporated by reference in the offering document, and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future filings or other offering documents will be agreed to at the time the services are to be performed.

Non-attest Services

You agree to assume all management responsibilities and to oversee the non-attest services we will provide by designating an individual possessing suitable skill, knowledge and/or experience. You acknowledge that non-attest services are not covered under *Government Auditing Standards*. You are responsible for:

- Making all management decisions and performing all management functions;
- Evaluating the adequacy and results of the services performed;
- Accepting responsibility for the results of such services; and
- Designing, implementing, and maintaining internal controls, including monitoring ongoing activities.

The non-attest services we will provide are covered in the following paragraphs.

We will provide the following additional non-attest services:

- We will assist with preparation of your financial statements, the preparation of fund to accrual accounting adjustments, the 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 the Data Collection Form that summarizes our audit findings. It is your responsibility to submit the reporting package (including financial statements, Schedule of Expenditures of Federal and State Awards, summary schedule of prior audit findings, auditor's reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditor's reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.
- At the conclusion of the engagement, we will upload the audited financial statements and compliance reports on the North Carolina State Treasurer's website.

You are responsible for evaluating the adequacy and results of the above non-attest services performed and accepting responsibility for the results of such services. This includes your 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.

With respect to any non-attest services provided, you are responsible for downloading and storing such deliverables in information systems controlled by your Town within ninety days of the completion date of the non-attest service. To the extent a web-based portal is utilized for the transmission of non-attest service deliverables, you agree that any web-based portal controlled by Dixon Hughes Goodman LLP will not be relied on as a data repository and acknowledge that any non-attest service deliverables will be removed from the web-based portal ninety days after the non-attest service completion date.

Engagement Fees

Our fees for these services will be based upon the time, skill and resources, including our proprietary information required to complete the services, plus all out-of-pocket expenses. However, you acknowledge the complexity of the issues involved and unforeseen circumstances may result in additional charges. In such event, we will discuss with you the basis of any such charge.

Our fees for these services will be \$48,600 plus \$7,500 for the writing of the financial statements, plus \$5,000 for up to two major programs and \$1,900 for any additional major program thereafter, and are based on anticipated cooperation from the Town's personnel and the assumption that unexpected circumstances will

not be encountered. If significant additional time is necessary, we will discuss a revised fee arrangement with you. We will also invoice for travel and other out-of-pocket costs such as report production, typing, postage, etc. This estimate is based on the assumption there will be no significant bookkeeping assistance required or significant changes in the Town's operations including (but not limited to): issuance of new debt; new construction projects; creation of new funds; new 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 any bookkeeping or 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.

Our invoices for these fees will be rendered each month as work progresses and are payable on presentation in U.S. Dollars. A 1½% per month interest charge will be added to all accounts not paid within thirty (30) days. If there is a significant change in your organizational structure or size due to acquisitions or other events, we reserve the right to revise our fees. We shall have the right to halt or terminate entirely our services until payment is received on past due invoices.

Should you require additional services incidental to those specified herein which are not the subject of a separate engagement letter, upon your request for the performance of those services we will confirm to you in writing or by electronic mail the requested services we will provide. Such services, including our fees, shall be rendered subject to and in accordance with the provisions of this letter.

Other Standard Terms and Conditions

In providing our audit services we are required by law and our professional standards to maintain our independence from the Town. We take this mandate very seriously and thus guard against impermissible relationships which may impair the very independence which you and the users of our report require. As such you should not place upon us special confidence that in the performance of our audit services we will act solely in your interest. Therefore, you acknowledge and agree we are not in a fiduciary relationship with you and we have no fiduciary responsibilities to you in the performance of our services described herein.

In connection with providing our professional services described herein, Dixon Hughes Goodman LLP may utilize the services of third-party service providers to complete these services. In addition, Dixon Hughes Goodman LLP may use third-party providers to provide, at Dixon Hughes Goodman LLP's discretion, administrative, clerical and data analysis services to Dixon Hughes Goodman LLP in connection with our professional services. In the performance of these services for Dixon Hughes Goodman LLP, we may share confidential information with the third-party service providers but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your information. Dixon Hughes Goodman LLP represents to that each such third-party service provider has agreed to conditions of confidentiality with respect to Town's information to the same or similar extent as Dixon Hughes Goodman LLP has agreed. Furthermore, we are responsible for the adequate oversight of services provided by these third-party service providers.

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 North Carolina Office of the State Auditor or its designee, a federal agency providing direct or indirect funding,

or the U.S. Government Accountability Office pursuant to authority given to it by law or regulation. If requested, access to such audit documentation will be provided under supervision of our 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.

In providing our services we may direct you to provide your information to us through a separate web based client portal accessible through a client experience dashboard as indicated by Dixon Hughes Goodman LLP in an effort to provide greater security with respect to the information. In the event we request you provide your information to us through such a client portal, (i) to the extent you fail to do so, or (ii) in using the client portal you fail to monitor and restrict access only to your authorized personnel (any such failure being referred to herein as a "Portal Failure") we disclaim, and you release us and shall indemnify and hold us harmless against any and all liability for loss and damage, including direct, indirect, consequential, incidental, and special damages such as loss of revenue or anticipated profits ("Damages"), arising from any interception, unintentional disclosure or communication or unauthorized use of such information incident to a Portal Failure or arising from claims by any third-party with whom you provide use or access to the client portal even if we are aware or have been advised of the use of or the access to, the client portal by such third-party in contravention of the restrictions set forth herein.

Many of our clients choose to communicate with us by email, and we may use email in connection with this engagement unless you direct us otherwise. We will use reasonable precautions to protect your 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, and you release us from any claims for any Damages 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") except to the extent resulting from our gross negligence or willful misconduct.

You represent and warrant to us that Town does not derive substantial or a material amount of revenue from the manufacture, sale or distribution of cannabis or related products ("Cannabis Products") or from activities which in any material manner support the manufacture, sale or distribution of Cannabis Products.

In the event Dixon Hughes Goodman LLP is required to respond to a subpoena, court order, government regulatory inquiry or other legal process relating to you or your management for the production of documents and/or testimony relative to information we obtained or prepared incident to this or any other engagement, you shall compensate Dixon Hughes Goodman LLP for all time we expend in connection with such response at normal and customary hourly rates, and to reimburse us for all out of pocket expenses incurred in regard to such response.

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 Town of Carrboro and Dixon Hughes Goodman LLP contained in this engagement letter shall survive the completion or termination of this engagement.

Scheduling is very tight and travel accommodations are difficult to change; therefore, a rescheduling fee of 10% may be charged if fieldwork has to be rescheduled within one month of the rescheduled starting date. In the event we need to reschedule we will try to accommodate your needs; however, due to other client commitments, we cannot guarantee a timetable that will allow us to complete the audit by the relevant deadline. All invoices are payable upon presentation.

You have requested that we provide you with a copy of our most recent external peer review report and any subsequent peer review reports received during the contract period. Accordingly, our 2020 peer review report accompanies this letter.

This engagement is limited to the services outlined above.

Please indicate your acceptance of the above understanding by signing this letter in the space below and returning it to our office. A copy is enclosed for your records. If your needs change during the year, the nature of our services can be adjusted appropriately. Likewise, if you have special projects with which we can assist, please let us know.

We want to express our appreciation for this opportunity to work with Town of Carrboro.

Sincerely,

Dixon Hughes Goodman LLP

DIXON HUGHES GOODMAN LLP

Accepted and Agreed:

Accepted and Agreed:

Town of Carrboro

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 Director



December 11, 2020

Ralph Snow
Dixon Hughes Goodman LLP
4350 Congress ST Ste 900
Charlotte, NC 28209-4866

Dear Ralph Snow:

It is my pleasure to notify you that on December 11, 2020, the National Peer Review Committee accepted the report on the most recent System Review of your firm. The due date for your next review is August 31, 2023. 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.

Thank you for your cooperation.

Sincerely,

A handwritten signature in black ink, reading "Michael Fawley", with a stylized flourish at the end.

Michael Fawley
Chair, National PRC
+1.919.402.4502

cc: Candace Wright, David Hinshaw

Firm Number: 900010017108

Review Number: 576076

Report on the Firm's System of Quality Control

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 engagements not subject to PCAOB permanent inspection in effect for the year ended February 29, 2020. 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 (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

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. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

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.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans, audits performed under FDICIA, an audit of a broker-dealer, and examinations of service organizations [SOC 1 and SOC 2 engagements].

As part of our peer review, we considered reviews by regulatory entities as communicated to the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Dixon Hughes Goodman LLP applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended February 29, 2020, 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 peer review rating of *pass*.



Baton Rouge, Louisiana
November 13, 2020

The	Governing Board
of	Primary Government Unit (or charter holder)
and	Discretely Presented Component Unit (DPCU) (if applicable)

Primary Government Unit, together with DPCU (if applicable), hereinafter referred to as Governmental Unit(s)

and	Auditor Name
	Auditor Address

Hereinafter referred to as Auditor

for	Fiscal Year Ending	Audit Report Due Date
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Must be within four months of FYE

hereby agree as follows:

1. The Auditor shall audit all statements and disclosures required by U.S. generally accepted auditing standards (GAAS) and additional required legal statements and disclosures of all funds and/or divisions of the Governmental Unit(s). 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 shall be rendered in relation to (as applicable) the governmental activities, the business- type activities, the aggregate DPCUs, 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 GAAS. 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 *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act, the Auditor shall perform a Single Audit. This audit and all associated audit documentation 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 requires a federal single audit performed under the requirements found in Subpart F of the Uniform Guidance (§200.501), it is recommended that the Auditor and Governmental Unit(s) jointly agree, in advance of the execution of this contract, which party is responsible for submission of the audit and the accompanying data collection form to the Federal Audit Clearinghouse as required under the Uniform Guidance (§200.512).

If the audit and Auditor communication 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 State Board).

3. If an entity is determined to be a component of another government as defined by the group audit standards, the entity's auditor shall 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 unmodified opinion being rendered. If during the process of conducting the audit, the Auditor determines that it will not be possible to render an unmodified opinion on the financial statements of the unit, the Auditor shall contact the LGC Staff to discuss the circumstances leading to that conclusion as soon as is practical and before the final report is issued. 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*, 2018 revision, issued by the Comptroller General of the United States, then by accepting this engagement, the Auditor warrants that he/she 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 the most recent peer review report to the Governmental Unit(s) and the Secretary of the LGC prior to the execution of an audit contract. Subsequent submissions of the report are required only upon report expiration or upon auditor's receipt of an updated peer review report. If the audit firm received a peer review rating other than pass, the Auditor shall not contract with the Governmental Unit(s) 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 U.S. generally accepted accounting principles (GAAP) and fail to include all disclosures required by GAAP, the Auditor shall provide an explanation as to why in an attachment to this contract or in an amendment.
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 LGC Staff within four months of fiscal year end. If it becomes necessary to amend this due date or the audit fee, an amended contract along with a written explanation of the delay shall be submitted to the Secretary of the LGC for approval.
7. It is agreed that GAAS include a review of the Governmental Unit's (Units') systems of internal control and accounting as same relate to accountability of funds and adherence to budget and law requirements applicable thereto; that the Auditor shall 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/her findings, together with his recommendations for improvement. That written report shall 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 (Units') records for audit, financial statement preparation, any finance-related investigations, or any other audit-related work in the State of North Carolina. Approval is not required on contracts and invoices for system improvements and similar services of a non-auditing nature.
9. Invoices for services rendered under these contracts shall not be paid by the Governmental Unit(s) 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 shall be submitted in PDF format to the Secretary of the LGC for approval. The invoice marked 'approved' with approval date shall be returned to

the Auditor to present to the Governmental Unit(s) for payment. This paragraph is not applicable to contracts for audits of hospitals.

10. In consideration of the satisfactory performance of the provisions of this contract, the Governmental Unit(s) shall pay to the Auditor, upon approval by the Secretary of the LGC if required, the fee, which includes any costs 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. This does not include fees for any pre-issuance reviews that may be required by the NC Association of CPAs (NCACPA) Peer Review Committee or NC State Board of CPA Examiners (see Item 13).

11. If the Governmental Unit(s) has/have outstanding revenue bonds, the Auditor shall submit to LGC Staff, either in the notes to the audited financial statements or as a separate report, a calculation demonstrating compliance with the revenue bond rate covenant. Additionally, the Auditor shall submit to LGC Staff simultaneously with the Governmental Unit's (Units') audited financial statements any other bond compliance statements or additional reports required by the authorizing bond documents, unless otherwise specified in the bond documents.

12. 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(s) and all of its component units prepared in accordance with GAAP, (c) supplementary information requested by the Governmental Unit(s) 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 upon completion.

13. If the audit firm is required by the NC State Board, the NCACPA Peer Review Committee, or the Secretary of the LGC to have a pre-issuance review of its audit work, there shall be a statement in the engagement letter indicating the pre-issuance review requirement. There also shall be a statement that the Governmental Unit(s) shall not be billed for the pre-issuance review. The pre-issuance review shall be performed prior to the completed audit being submitted to LGC Staff. The pre-issuance review report shall accompany the audit report upon submission to LGC Staff.

14. The Auditor shall submit the report of audit in PDF format to LGC Staff. For audits of units other than hospitals, the audit report should be submitted when (or prior to) submitting the final 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 LGC by any interested parties. Any subsequent revisions to these reports shall be sent to the Secretary of the LGC along with an Audit Report Reissued Form (available on the Department of State Treasurer website). These audited financial statements, excluding the Auditors' opinion, may be used in the preparation of official statements for debt offerings by municipal bond rating services to fulfill secondary market disclosure requirements of the Securities and Exchange Commission and for other lawful purposes of the Governmental Unit(s) without requiring consent of the Auditor. If the LGC Staff determines that corrections need to be made to the Governmental Unit's (Units') financial statements, those corrections shall be provided within three business days of notification unless another deadline is agreed to by LGC Staff.

15. 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 modified or amended to include the increased time, compensation, or both as may be agreed upon by the Governing Board and the Auditor.

16. If an approved contract needs to be modified or amended for any reason, the change shall be made in writing and pre-audited if the change includes a change in audit fee (pre-audit requirement does not apply to charter schools or hospitals). This amended contract shall be completed in full, including a written explanation of the change, signed and dated by all original parties to the contract. It shall then be submitted to the Secretary of the LGC for approval. No change to the audit contract shall be effective unless approved by the Secretary of the LGC, the Governing Board, and the Auditor.

17. A copy of the engagement letter, issued by the Auditor and signed by both the Auditor and the Governmental Unit(s), shall be attached to this contract, and except for fees, work, and terms not related to audit services, shall be incorporated by reference as if fully set forth herein as part of this contract. In case of conflict between the terms of the engagement letter and the terms of this contract, the terms of this contract shall take precedence. Engagement letter terms that conflict with the contract are deemed to be void unless the conflicting terms of this contract are specifically deleted in Item 28 of this contract. Engagement letters containing indemnification clauses shall not be accepted by LGC Staff.

18. Special provisions should be limited. Please list any special provisions in an attachment.

19. 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 to be issued and the DPCU is included in the primary government audit, the DPCU shall be named along with the primary government on this audit contract. DPCU Board approval date, signatures from the DPCU Board chairman and finance officer also shall be included on this contract.

20. The contract shall be executed, pre-audited (pre-audit requirement does not apply to charter schools or hospitals), and physically signed by all parties including Governmental Unit(s) and the Auditor, then submitted in PDF format to the Secretary of the LGC.

21. The contract is not valid until it is approved by the Secretary of the LGC. 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.

22. Retention of Client Records: Auditors are subject to the NC State Board of CPA Examiners' Retention of Client Records Rule 21 NCAC 08N .0305 as it relates to the provision of audit and other attest services, as well as non-attest services. Clients and former clients should be familiar with the requirements of this rule prior to requesting the return of records.

23. This contract may be terminated at any time by mutual consent and agreement of the Governmental Unit(s) and the Auditor, provided that (a) the consent to terminate is in writing and signed by both parties, (b) the parties have agreed on the fee amount which shall be paid to the Auditor (if applicable), and (c) no termination shall be effective until approved in writing by the Secretary of the LGC.

24. The Governmental Unit's (Units') failure or forbearance to enforce, or waiver of, any right or an event of breach or default on one occasion or instance shall not constitute the waiver of such right, breach or default on any subsequent occasion or instance.

25. 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.

26. E-Verify. Auditor shall comply with the requirements of NCGS Chapter 64 Article 2. Further, if Auditor utilizes any subcontractor(s), Auditor shall require such subcontractor(s) to comply with the requirements of NCGS Chapter 64, Article 2.

27. **Applicable to audits with fiscal year ends of June 30, 2020 and later.** For all non-attest services, the Auditor shall adhere to the independence rules of the AICPA Professional Code of Conduct and Governmental Auditing Standards, 2018 Revision (as applicable). Financial statement preparation assistance shall be deemed a "significant threat" requiring the Auditor to apply safeguards sufficient to reduce the threat to an acceptable level. If the Auditor cannot reduce the threats to an acceptable level, the Auditor cannot complete the audit. If the Auditor is able to reduce the threats to an acceptable level, the documentation of this determination, including the safeguards applied, must be included in the audit workpapers.

All non-attest service(s) being performed by the Auditor that are necessary to perform the audit must be identified and included in this contract. The Governmental Unit shall designate an individual with the suitable skills, knowledge, and/or experience (SKE) necessary to oversee the services and accept responsibility for the results of the services performed. If the Auditor is able to identify an individual with the appropriate SKE, s/he must document and include in the audit workpapers how he/she reached that conclusion. If the Auditor determines that an individual with the appropriate SKE cannot be identified, the Auditor cannot perform both the non-attest service(s) and the audit. See "Fees for Audit Services" page of this contract to disclose the person identified as having the appropriate SKE for the Governmental Unit.

28. **Applicable to audits with fiscal year ends of June 30, 2021 and later.** The auditor shall present the audited financial statements including any compliance reports to the government unit's governing body or audit committee in an official meeting in open session as soon as the audited financial statements are available but not later than 45 days after the submission of the audit report to the Secretary. The auditor's presentation to the government unit's governing body or audit committee shall include:

- a) the description of each finding, including all material weaknesses and significant deficiencies, as found by the auditor, and any other issues related to the internal controls or fiscal health of the government unit as disclosed in the management letter, the Single Audit or Yellow Book reports, or any other communications from the auditor regarding internal controls as required by current auditing standards set by the Accounting Standards Board or its successor;
- b) the status of the prior year audit findings;
- c) the values of Financial Performance Indicators based on information presented in the audited financial statements; and
- d) notification to the governing body that the governing body shall develop a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters," if required under 20 NCAC 03 .0508.

29. Information based on the audited financial statements shall be submitted to the Secretary for the purpose of identifying Financial Performance Indicators and Financial Performance Indicators of Concern.

30. Applicable to charter school contracts only: No indebtedness of any kind incurred or created by the charter school shall constitute an indebtedness of the State or its political subdivisions, and no indebtedness of the charter school shall involve or be secured by the faith, credit, or taxing power of the State or its political subdivisions.

31. 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).

32. The process for submitting contracts, audit reports and invoices is subject to change. Auditors and units should use the submission process and instructions in effect at the time of submission. Refer to the N.C. Department of State Treasurer website at <https://www.nctreasurer.com/state-and-local-government-finance-division/local-government-commission/submitting-your-audit>

33. All communications regarding audit contract requests for modification or official approvals will be sent to the email addresses provided on the signature pages that follow.

34. Modifications to the language and terms contained in this contract form (LGC-205) are not allowed.

FEES FOR AUDIT SERVICES

1. For all non-attest services, the Auditor shall adhere to the independence rules of the AICPA Professional Code of Conduct (as applicable) and *Governmental Auditing Standards, 2018 Revision*. Refer to Item 27 of this contract for specific requirements. The following information must be provided by the Auditor; contracts presented to the LGC without this information will not be approved.

Financial statements were prepared by: ☐ Auditor ☐ Governmental Unit ☐ Third Party

If applicable: Individual at Governmental Unit designated to have the suitable skills, knowledge, and/or experience (SKE) necessary to oversee the non-attest services and accept responsibility for the results of these services:

Name:

Title and Unit / Company:

Email Address:

OR Not Applicable (Identification of SKE Individual not applicable for GAAS-only audit or audits with FYEs prior to June 30, 2020.)

2. Fees may not be included in this contract for work performed on Annual Financial Information Reports (AFIRs), Form 990s, or other services not associated with audit fees and costs. Such fees may be included in the engagement letter but may not be included in this contract or in any invoices requiring approval of the LGC. See Items 8 and 13 for details on other allowable and excluded fees.

3. 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 billings for the last annual audit of the unit submitted to the Secretary of the LGC. Should the 75% cap provided below conflict with the cap calculated by LGC Staff based on the billings on file with the LGC, the LGC calculation prevails. All invoices for services rendered in an audit engagement as defined in 20 NCAC .0503 shall be submitted to the Commission for approval before any payment is made. Payment before approval is a violation of law. (This paragraph not applicable to contracts and invoices associated with audits of hospitals).

PRIMARY GOVERNMENT FEES

Primary Government Unit	
Audit Fee	\$
Additional Fees Not Included in Audit Fee:	
Fee per Major Program	\$
Writing Financial Statements	\$
All Other Non-Attest Services	\$
75% Cap for Interim Invoice Approval (not applicable to hospital contracts)	\$

DPCU FEES (if applicable)

Discretely Presented Component Unit	
Audit Fee	\$
Additional Fees Not Included in Audit Fee:	
Fee per Major Program	\$
Writing Financial Statements	\$
All Other Non-Attest Services	\$
75% Cap for Interim Invoice Approval (not applicable to hospital contracts)	\$

SIGNATURE PAGE**AUDIT FIRM**

Audit Firm*	
Authorized Firm Representative (typed or printed)*	Signature*
Date*	Email Address*

GOVERNMENTAL UNIT

Governmental Unit*	
Date Primary Government Unit Governing Board Approved Audit Contract* (G.S.159-34(a) or G.S.115C-447(a))	
Mayor/Chairperson (typed or printed)*	Signature*
Date	Email Address

Chair of Audit Committee (typed or printed, or "NA")	Signature
Date	Email Address

GOVERNMENTAL UNIT – PRE-AUDIT CERTIFICATE

Required by G.S. 159-28(a1) or G.S. 115C-441(a1).
Not applicable to hospital contracts.

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

Primary Governmental Unit Finance Officer* (typed or printed)	Signature*
Date of Pre-Audit Certificate*	Email Address*

SIGNATURE PAGE – DPCU
(complete only if applicable)

DISCRETELY PRESENTED COMPONENT UNIT

DPCU*	
Date DPCU Governing Board Approved Audit Contract* (Ref: G.S. 159-34(a) or G.S. 115C-447(a))	
DPCU Chairperson (typed or printed)*	Signature*
Date*	Email Address*

Chair of Audit Committee (typed or printed, or "NA")	Signature
Date	Email Address

DPCU – PRE-AUDIT CERTIFICATE

Required by G.S. 159-28(a1) or G.S. 115C-441(a1).
 Not applicable to hospital contracts.

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

DPCU Finance Officer (typed or printed)*	Signature*
Date of Pre-Audit Certificate*	Email Address*

Remember to print this form, and obtain all
 required signatures prior to submission.