

MISTY D WATSON, CPA, P.A.
CERTIFIED PUBLIC ACCOUNTANT
PO BOX 2122
BOONE, NORTH CAROLINA 28607
TELEPHONE (828) 263-1100

November 21, 2017

To Town Council and Nicole Norman

Town of Blowing Rock, North Carolina
PO Box 47
Blowing Rock, NC 28605

We are pleased to confirm our understanding of the services we are to provide Town of Blowing Rock for the year ended June 30, 2018. We will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, including the related notes to the financial statements, which collectively comprise the basic financial statements of Town of Blowing Rock as of and for the year ended June 30, 2018. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement Town of Blowing Rock's basic financial statements. 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. As part of our engagement, we will apply certain limited procedures to Town of Blowing Rock's 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. The following RSI is required by U.S. generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis.
- 2) Schedule of Town's Proportionate Share of Net Pension Liability (Asset) LGERS
- 3) Schedule of Town's Contributions LGERS
- 4) Schedule of Changes in Total Pension Liability – Law Enforcement Officers' Special Separation Allowance
- 5) Schedule of Total Pension Liability as a Percentage of Covered Payroll

We have also been engaged to report on supplementary information other than RSI that accompanies Town of Blowing Rock's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion on it in relation to the financial statements as a whole, in a report combined with our auditor's report on the financial statements:

- 1) Schedule of Expenditures of Federal and State Awards.
- 2) Combining and Individual Fund Statements and Schedules
- 3) Statements of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
- 4) Other Schedules

Audit Objectives

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. Our audit will be conducted in accordance with auditing standards

generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of Town of Blowing Rock and other procedures we consider necessary to enable us to express such opinions. We will issue a written report upon completion of our audit of Town of Blowing Rock's financial statements. Our report will be addressed to Town Council of Town of Blowing Rock. We will make reference to Combs, Tennant & Carpenter, PC. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions are 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 opinions, we may decline to express opinions or issue reports, or may withdraw from this engagement.

We will also provide a report (that does not include an opinion) 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 as required by *Government Auditing Standards*. The report on internal control and on compliance and other matters will include a paragraph that states (1) 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 entity's internal control on compliance, and (2) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The paragraph will also state that the report is not suitable for any other purpose. If during our audit we become aware that Town of Blowing Rock 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 U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

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 assurance about whether the financial statements are free of 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 government or to acts by management or employees acting on behalf of the government. 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 a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards 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. However, we will inform the appropriate level of management of any material errors, 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. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

Audit Procedures—Internal Control

Our audit will include obtaining an understanding of the government 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. 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*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. 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 AICPA professional standards and *Government Auditing Standards*.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Town of Blowing Rock's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit 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*.

Other Services

We will also assist in preparing the financial statements and related notes of Town of Blowing Rock in conformity with U.S. generally accepted accounting principles based on information provided by you. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*. We will perform the services in accordance with applicable professional standards. The other services are limited to the financial statement services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

Management Responsibilities

Management is responsible for designing, implementing, and maintaining effective internal controls, including evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met; following laws and regulations; and ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles, for the preparation and fair presentation of the financial statements and all accompanying information in conformity with U.S. generally accepted accounting principles, and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the written 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.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws, regulations, contracts, agreements, and grants and for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that we report.

You are responsible for the preparation of the supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include our report on the

supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) 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 (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is 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 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 other studies. You are also responsible for 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.

You agree to assume all management responsibilities relating to the financial statements and related notes and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and related notes and that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further you agree to oversee the nonaudit services we provide by designating an individual, Nicole Norman, with suitable skill, knowledge or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Engagement Administration, Fees, and Other

We may from time to time and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these 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 personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

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

We will provide copies of our reports to Town Council; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Misty D Watson, CPA, PA and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to NC LGC or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Misty D Watson, CPA, PA 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.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the NC LGC. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

We expect to begin our audit on approximately February 2018 and to issue our reports no later than October 31, 2018. Misty Watson is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.) except that we agree that our gross fee, including expenses, will not exceed \$18,400. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 60 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

We appreciate the opportunity to be of service to Town of Blowing Rock and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,



Misty D Watson, CPA PA

RESPONSE:

This letter correctly sets forth the understanding of Town of Blowing Rock.

Management signature: _____

Title: _____

Date: _____

Governance signature: _____

Title: _____

Date: _____

CONTRACT TO AUDIT ACCOUNTS

Of _____
Primary Government Unit

Discretely Presented Component Unit (DPCU) if applicable

On this _____ day of _____, _____,

Auditor: _____ Auditor Mailing Address: _____

_____ Hereinafter referred to as The Auditor

and _____ (Governing Board(s)) of _____
(Primary Government)

and _____: hereinafter referred to as the Governmental Unit(s), agree as follows:
(Discretely Presented Component Unit)

1. The Auditor shall audit all statements and disclosures required by accounting principles generally accepted in the United States of America (GAAP) and additional required legal statements and disclosures of all funds and/or divisions of the Governmental Unit (s) for the period beginning _____, _____, and ending _____, _____. 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 auditing standards generally accepted in the United States of America. 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 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). **County and Multi-County Health Departments:** The Office of State Auditor (OSA) will require Auditors of these Governmental Units to perform agreed upon procedures (AUPs) on eligibility determination on certain programs. Both Auditor and Governmental Unit agree that Auditor shall complete and report on these AUPs on Eligibility Determination as required by OSA and in accordance with the instructions and timeline provided by OSA.
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 unqualified opinion being rendered. If during the process of conducting the audit the Auditor determines that it will not be possible to render an unqualified opinion on the financial statements of the unit, the Auditor shall contact the SLGFD 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.

Contract to Audit Accounts (cont.)

Primary Government Unit

Discretely Presented Component Unit (DPCU) if applicable

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. **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 SLGFD within four months of fiscal year end.
Audit report is due on _____, _____. 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 generally accepted auditing standards include a review of the Governmental Unit's 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 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 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 shall be submitted in PDF format to the Secretary of the LGC for approval. The invoices shall be sent via upload through the current portal address: <http://nctreasurer.slgfd.leapfile.net> Subject line should read "Invoice – [Unit Name]. The PDF invoice marked 'approved' with approval date shall 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 Primary Government shall pay to the Auditor, upon approval by the Secretary of the LGC, the 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. (**Note: Fees listed on Fees page.**) 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 #12).
10. If the Governmental Unit has outstanding revenue bonds, the Auditor shall submit to the SLGFD either in the notes to the audited financial statements or as a separate report, a calculation demonstrating compliance with the revenue

Contract to Audit Accounts (cont.)

Primary Government Unit

Discretely Presented Component Unit (DPCU) if applicable

bond rate covenant. Additionally, the Auditor shall submit to the SLGFD simultaneously with the Governmental Unit's audited financial statements any other bond compliance statements or additional reports required by the authorizing bond documents, 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 Governmental Unit 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 fiscal year end.
12. 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 shall not be billed for the pre-issuance review. The pre-issuance review shall be performed **prior** to the completed audit being submitted to the SLGFD. The pre-issuance review report shall accompany the audit report upon submission to the SLGFD.
13. The Auditor shall electronically submit the report of audit to the SLGFD as a text-based PDF file 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 shall be sent to the Secretary of the LGC along with an Audit report Reissuance form.** 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 without subsequent consent of the Auditor. If the SLGFD determines that corrections need to be made to the Governmental Unit's financial statements, those corrections shall be provided within three days of notification unless another deadline is agreed to by the SLGFD.

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 SLGFD.

The SLGFD's process for submitting contracts, audit reports and invoices is subject to change. Auditors shall 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, compensation, or both as may be agreed upon by the Governing Board and the Auditor.
15. If an approved contract needs to be amended for any reason, the change shall be made in writing, on the Amended LGC-205 contract form and pre-audited if the change includes a change in audit fee. 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 through the audit contract portal to the Secretary of the LGC for approval. The portal address to upload the amended contract is <http://nctreasurer.slgfd.leapfile.net> No change to the audit contract shall be effective unless approved by the Secretary of the LGC, the Governing Board, and the Auditor.

Contract to Audit Accounts (cont.)

Primary Government Unit

Discretely Presented Component Unit (DPCU) if applicable

16. A copy of the engagement letter, issued by the Auditor and signed by both the Auditor and the Governmental Unit shall be attached to the contract, and by reference here becomes part of the 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 #23 of this contract. Engagement letters containing indemnification clauses shall not be accepted by the SLGFD.
17. Special provisions should be limited. Please list any special provisions in an attachment.
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 to be issued and the DPCU is included in the primary government audit, the DPCU shall be named along with the parent 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.
19. The contract shall be executed, pre-audited, physically signed by all parties including Governmental Unit and the Auditor and then submitted in PDF format to the Secretary of the LGC. The current portal address to upload the 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 November 2017. These instructions are subject to change. Please check the NC Treasurer's web site at <https://www.nctreasurer.com/slg/Pages/Audit-Forms-and-Resources.aspx> for the most recent instructions.
20. 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.**
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. **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.
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).

SIGNATURE PAGES FOLLOW FEES PAGE

Contract to Audit Accounts (cont.) _____
Primary Government Unit

Discretely Presented Component Unit (DPCU) if applicable

FEES – PRIMARY GOVERNMENT

AUDIT: \$ _____

WRITING FINANCIAL STATEMENTS: \$ _____

ALL OTHER NON-ATTEST SERVICES: \$ _____

For all non-attest services the Auditor shall adhere to the independence rules of the AICPA Professional Code of Conduct and *Governmental Auditing Standards* (as applicable). Bookkeeping and other non-attest services necessary to perform the audit shall be included under this contract. However, bookkeeping assistance shall be limited to the extent that the Auditor is not auditing his or her own work or making management decisions. The Governmental Unit shall designate an individual with the suitable skills, knowledge, and/or experience necessary to oversee the services and accept responsibility for the results of the services. 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. The Auditor shall maintain written documentation of his or her compliance with these standards in the audit work papers.

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 \$ _____
** NA if there is to be no interim billing

FEES – DPCU (IF APPLICABLE)

AUDIT: \$ _____

WRITING FINANCIAL STATEMENTS: \$ _____

ALL OTHER NON-ATTEST SERVICES: \$ _____

For all non-attest services the Auditor shall adhere to the independence rules of the AICPA Professional Code of Conduct and *Governmental Auditing Standards* (as applicable). Bookkeeping and other non-attest services necessary to perform the audit shall be included under this contract. However, bookkeeping assistance shall be limited to the extent that the Auditor is not auditing his or her own work or making management decisions. The Governmental Unit shall designate an individual with the suitable skills, knowledge, and/or experience necessary to oversee the services and accept responsibility for the results of the services. 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. The Auditor shall maintain written documentation of his or her compliance with these standards in the audit work papers.

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 \$ _____
** NA if there is to be no interim billing

Contract to Audit Accounts (cont.) _____

Primary Government Unit

Discretely Presented Component Unit (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:

Name of Audit Firm

By _____

Authorized Audit firm representative name: Type or print

Signature of authorized audit firm representative

Date _____

Email Address of Audit Firm

Governmental Unit Signatures:

Name of Primary Government

By _____

Mayor / Chairperson: Type or print name and title

Signature of Mayor/Chairperson of governing board

Date _____

By _____

Chair of Audit Committee - Type or print name

Signature of Audit Committee Chairperson **

Date

Date

*** If Governmental Unit has no audit committee, mark this section "N/A"*

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

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.

By _____

Primary Government Unit Finance Officer:

Type or print name

Primary Government Finance Officer Signature

Date _____

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

Email Address of Finance Officer

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

Date

*****Please provide us the most current email addresses available as we use this information to update our contact database*****

Contract to Audit Accounts (cont.) _____

Primary Government Unit

Discretely Presented Component Unit (DPCU) if applicable

**** This page to only be completed by Discretely Presented Component Units If Applicable ****

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

DPCU Governmental Unit Signatures:

Name of Discretely Presented Component Unit

By _____

DPCU Board Chairperson: Type or print name and title

Signature of Chairperson of DPCU governing board

Date _____

By _____

Chair of Audit Committee - Type or print name

Signature of Audit Committee Chairperson **

Date _____

** If Governmental Unit has no audit committee, mark this section "N/A"

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

(a)

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.

By _____

DPCU Finance Officer:

Type or print name

DPCU Finance Officer Signature

Date _____

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

Email Address of Finance Officer

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

*****Please provide us the most current email addresses available as we use this information to update our contact database*****

Steps to Completing the Audit Contract

1. Complete the header information – If a DPCU is subject to the audit requirements found in the Local Government Budget and Fiscal Control Act and a separate report is being issued for that DPCU, a separate audit contract for the DPCU is required. If a separate report is not being issued for the DPCU – it is being included in the Primary Government’s audit – the DPCU shall be named with the Primary Government on the audit contract for the Primary Government. The Board Chairperson of the DPCU shall sign the audit contract in addition to the elected leader of the Primary Government.
2. Item No. 1 – Complete the period covered by the audit
3. Item No. 6 – Fill in the audit due date. For Governmental Unit (s), the contract due date can be no later than 4 months after the end of the fiscal year, even though amended contracts may not be required until a later date.
4. Item No. 8 – If the process for invoice approval instructions changed, the Auditor should make sure he and his administrative staff are familiar with the current process. Instructions for each process can be found at the following link. <https://www.nctreasurer.com/sgl/Pages/Audit-Forms-and-Resources.aspx>
5. Item No. 9 – Please note that the new fee section has been moved to page 5.
6. Item No. 16 – Has the engagement letter been attached to the contract that is being submitted to SLGFD?
 - a. Do the terms and fees specified in the engagement letter agree with the Audit 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.”*
 - b. Does the engagement letter contain an indemnification clause? **The audit contract shall not be approved if there is an indemnification clause – refer to LGC Memo # 986.**
7. Complete the fee section for BOTH the Primary Government and the DPCU (if applicable) on the fees page; please note:

- The cap on interim payments is 75% of the current audit fee for services rendered if the contracted fee amount is a fixed amount. If any part of the fee is variable, interim payments are limited to 75% of the prior year’s total audit fee. If the contract fee is partially variable, we shall compare the authorized interim payment on the contract to 75% of last year’s actual approved total audit fee amount according to our records. There is a report of audit fees paid by each governmental unit on our web site: https://www.nctreasurer.com/sgl/lfm/audit_acct/Pages/default.aspx select “audit fees”

Please call or email Lorna Hodge at 919-814-4299 lorna.hodge@nctreasurer.com if you have any questions about the fees on this list.

- For variable fees for services, are the hourly rates or other rates clearly stated in detail? If issued separately in an addendum, has the separate page been acknowledged in writing by the Governmental Unit?

Contract to Audit Accounts (cont.)

Primary Government Unit

Discretely Presented Component Unit (DPCU) if applicable

- For fees for services that are a combination of fixed and variable fees, are the services to be provided for the fixed portion of the fee clearly stated? Are the hourly rates or other rates clearly stated for the variable portion of the fee? (Note: See previous bullet point regarding variable fees.)
 - If there is to be no interim billing, please indicate N/A instead of leaving the line blank.
8. Signature Area – There are now 2 Signature Pages: one for the Primary Government and one for the DPCU. Please only send the page(s) that are applicable to your Unit of Government and do not include the instructions pages. Make sure all signatures have been obtained, and properly dated. **The contract shall be approved by Governing Boards pursuant to G.S. 159-34(a).** If this contract includes the audit for a DPCU that is a Public Authority that falls under the Local Government Budget and Fiscal Control Act, it shall be named in this contract and the Board Chairperson of the DPCU also shall sign the contract in the area indicated. If the DPCU is filing a separate audit, a separate audit contract is required for that DPCU.
9. Please place the date the Primary Government’s Governing Board and the DPCU’s Governing Board (if applicable) approved the audit contract in the space provided.
- a. Please make sure that you provide email addresses for the audit firm and finance officer as these will be used to communicate official approval of the contract.
 - b. Has the pre-audit certificate for the Primary Government (and the DPCU if applicable) been signed and dated by the appropriate party?
 - c. Has the name and title of the Mayor or Chairperson of the Unit’s Governing Board and the DPCU’s Chairperson (if applicable) been typed or printed on the contract and has he/she signed in the correct area directly under the Auditor’s signature?
10. If the Auditor is performing an audit under the yellow book or single audit rules, has year-end bookkeeping assistance been limited to those areas permitted under the revised GAO Independence Standards? Although not required, we encourage Governmental Units and Auditors to disclose the nature of these services in the contract or an engagement letter. Fees for these services should be shown in the space indicated on the fees page.
11. Has the most recently issued peer review report for the audit firm been included with the contract? This is required if the audit firm has received a new peer review report that has not yet been forwarded to us. The audit firm is only required to send the most current Peer Review report to us once – not multiple times.
12. After all the signatures have been obtained and the contract is complete, please convert the contract and all other supporting documentation to PDF. **When submitting for approval combine and send the documents as one PDF file to include the Audit contract, any applicable addendums, the engagement letter and Peer Review Report.** Submit these documents using the most current submission process which can be obtained at the NC Treasurer’s web site
<https://www.nctreasurer.com/slg/Audit%20Forms%20and%20Resources/Instructions%20for%20Contract%20Submission.pdf>
13. If an audit cannot be completed by the due date, the Auditor or Governmental Unit shall file an Amended Contract form (Amended LGC-205). This form shall be signed by the Governmental Unit representative and the Auditor. The explanation for the delay in completing the audit is part of this contract amendment form and shall be provided. The parties that signed the original audit contract shall sign the amended contract form as well. If the signing representatives are unable to sign the amended contract, please include an explanation for this in the submitted amended contract form.