

LGC-205 (Rev. 1/1/2001)
File in Triplicate.

CONTRACT TO AUDIT ACCOUNTS
of Town of Chapel Hill, NC
Governmental Unit

On this 6th day of February, 2002, McGladrey & Pullen, LLP
Auditor

230 North Elm Street, Suite 1100, P.O. Box 2470, Greensboro, North Carolina 27402
Mailing Address

_____ , hereinafter referred to as
the Auditor, and The Town Council of Town of Chapel Hill, NC, hereinafter referred
Governing Board Governmental Unit
to as the Governmental Unit, agree as follows:

1. The Auditor shall audit all statements and disclosures required by generally accepted accounting principles and additional required legal statements and disclosures of all funds and/or divisions of the Governmental Unit for the period beginning July 1, 2001, and ending June 30, 2002. The combining, individual fund, and account group financial statements and schedules shall be subjected to the auditing procedures applied in the audit of the combined financial statements and an opinion will be rendered in relation to the combined financial statements taken as a whole.
2. At a minimum, the Auditor shall conduct his audit and render his report in accordance with generally accepted auditing standards. The auditor shall perform the audit in accordance with Government Auditing Standards if required by the State Single Audit Implementation Act, as codified in G.S. 159-34. If required by OMB Circular A-133 and the State Single Audit Implementation Act, the auditor shall perform a Single Audit.
3. *This contract contemplates an unqualified opinion being rendered.* If financial statements are not prepared in accordance with generally accepted accounting principles (GAAP), or the statements fail to include all disclosures required by GAAP, explain that departure from GAAP in the space below:
4. *This contract contemplates an unqualified opinion being rendered.* The audit shall include such tests of the accounting records and such other auditing procedures as are considered by the Auditor to be necessary in the circumstances. *Any limitations or restrictions in scope which would lead to a qualification should be fully explained in an attachment to this contract.* The audit will have no scope limitations except:
5. If this audit engagement is subject to the standards for audit as defined in the Government Auditing Standards, issued by the Comptroller General of the United States, then the Auditor warrants by accepting this engagement that he/she has met the requirements for a peer review and continuing education as specified in the Government Auditing Standards. The Auditor agrees to provide a copy of their most recent peer review report to the Governmental Unit and the Secretary of the Local Government Commission prior to the execution of the audit contract. (See Item 20.)
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 by
October 31, 2002.
7. It is agreed that generally accepted auditing standards include a review of the Governmental Unit's system of internal control and accounting as same relates to accountability of funds and adherence to budget and law requirements applicable thereto; that the Auditor will make a written report, which may or may not be a part of the written report of audit, to the Governing Board setting forth his findings, together with his recommendations for improvement. That written report must include all matters defined as "reportable conditions" in AU 325 of the AICPA Professional Standards. The Auditor shall file a copy of that report with the Secretary of the Local Government Commission.
8. All local government and public authority contracts for annual or special audits, bookkeeping or other assistance necessary to prepare the Unit's records for audit, financial statement preparation, any finance-related investigations, or any other audit-related work in the State of North Carolina require the approval of the Secretary of the Local Government Commission. 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 Local Government Commission. (This also includes any progress billings.) All invoices should be submitted in triplicate to the Secretary of the Local Government Commission. The original and one copy will be returned to the Auditor. 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 agreement, the Governmental Unit shall pay to the Auditor, upon approval by the Secretary of the Local Government Commission, the following fee which includes any cost the Auditor may incur from work paper or peer reviews or any other quality assurance program required by third parties (Federal and State grantor and oversight agencies or other organizations) as required under the Federal and State Single Audit Acts:
Year-end bookkeeping assistance - None (Refer to attached arrangement letter)
Audit - \$38,500 (Refer to attached arrangement letter)
Preparation of the financial statements None (Refer to attached arrangement letter)
10. After completing his audit, the Auditor shall submit to the Governing Board a written report of audit. This report shall include, at least, the financial statements of the governmental unit and all of its component units and notes thereto prepared in accordance with generally accepted accounting principles, combining and supplementary information requested by the client or required for full disclosure under the law, and the auditor's opinion on the material presented. The Auditor shall furnish the required number of copies of the report of audit to the Governing Board as soon as practical after the close of the accounting period.
11. The Auditor shall file with the Local Government Commission two copies of the report of audit, including one copy of the federal Data Collection Form, if a federal single audit is conducted. Two copies of the report of audit should be submitted if an

audit is required to be performed only under the requirements of the State Single Audit Implementation Act or a financial audit is required to be performed in accordance with Government Auditing Standards. Otherwise, one copy shall be submitted. Copies of the report shall be filed with the Local Government Commission when (or prior to) submitting the invoice for the services rendered. All copies of the report submitted must be bound. The report of audit, as filed with the Secretary of the Local Government Commission, becomes a matter of public record for inspection and review in the offices of the Secretary by any interested parties. Any subsequent revisions to these reports must be sent to the Secretary of the Local Government Commission. These audited financial statements are used in the preparation of Official Statements for debt offerings, by municipal bond rating services, and to fulfill secondary market disclosure requirements of the Securities and Exchange Commission.

9

12. 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 therefor. Upon approval by the Secretary of the Local Government Commission, this agreement may be varied or changed to include the increased time and/or compensation as may be agreed upon by the Governing Board and the Auditor.
13. If an approved contract needs to be varied or changed for any reason, the change must be reduced to writing, signed by both parties, preaudited if necessary, and submitted to the Secretary of the Local Government Commission for approval. No change shall be effective unless approved by the Secretary of the Local Government Commission, the Governing Board, and the Auditor.
14. Whenever the Auditor uses an engagement letter with the client, Item 15 may be completed by referencing the engagement letter and attaching a copy of the engagement letter to the contract to incorporate the engagement letter into the contract. In case of conflict between the terms of the engagement letter and the terms of this contract, the terms of this contract will control. Engagement letter terms are deemed to be void unless the conflicting terms of this contract are specifically deleted in Item 21 of this contract. Engagement letters containing indemnification clauses will not be approved by the Local Government Commission.
15. There are no special provisions except:
16. A separate contract should not be made for each division to be audited or report to be submitted. A separate contract must be executed for each component unit which is a local government and for which a separate audit report is issued.
17. The contract should be executed and submitted in triplicate to the Secretary of the Local Government Commission, 325 North Salisbury Street, Raleigh, North Carolina 27603-1385.
18. Upon approval, the original contract will be returned to the Governmental Unit, a copy will be forwarded to the Auditor, and a copy retained by the Secretary of the Local Government Commission. The audit should not be started before the contract is approved.
19. 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 Local Government Commission.
20. If this audit engagement is not subject to Government Auditing Standards, then Item 5 shall be listed as a deleted provision in Item 21. An explanation must be given for deleting this provision.
21. All of the above paragraphs are understood and shall apply to this agreement, except the following numbered paragraphs shall be deleted: (See Item 14.)
22. Will the audited financial statements be prepared in accordance with GASB Statement No. 34? YES NO
If the audited financial statements are prepared in accordance with GASB Statement No. 34 the references in Item 1 to the combining, individual fund, and account group statements shall mean the basic financial statements, management's discussion and analysis, and required supplementary statements as defined in GASB Statement No. 34. Auditing procedures applicable to other supplementary schedules are not changed by the implementation of GASB Statement No. 34.

By Mark L. Snyder
(Please type or print name)
Mark L. Snyder
(Signature of authorized audit firm representative)
Date FEB. 7, 2002

By _____
(Please type or print name and title)

(Signature of Mayor or Chairperson of governing board)
Date _____

Approved by the Secretary of the Local Government Commission as provided in Article 3, Chapter 159 of the General Statutes or Article 31, Part 3, Chapter 115C of the General Statutes.

For the Secretary, Local Government Commission

(Signature)
Date _____

By N/A
(Chairperson of Audit Committee (Please type or print name))

(Signature of Audit Committee Chairperson)
Date _____
(If unit does not have an audit committee, this section should be marked "N/A.")

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

James M. Baker, Finance Director
Governmental Unit Finance Officer (Please type or print name)

(Signature)
Date _____
(Preaudit Certificate must be dated.)

TOWN OF CHAPEL HILL, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2001

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	\$	\$	Current Year Expenditures		
						Federal	State	Local
FEDERAL ASSISTANCE								
U.S. Department of Transportation								
Direct Programs:								
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X281	735,000	\$	927,759	\$		
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC-90-X265	428,508		189,544		23,693	23,693
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC90-X243	321,710		73,650		9,206	9,206
Federal Transit Administration - Federal Transit Capital and Planning Formula Grant	20.507	NC90-X227-01	1,061,280		249,367		31,171	31,171
Federal Transit Administration - Federal Transit Capital, Planning and Operating Formula Grant	20.507	NC-03-0044	710,000		32,122		4,015	4,015
Passed-Through N. C. Department of Transportation:								
Federal Transit Administration - Federal Transit Capital Improvement Grant	20.500	NC-90-X208-01	1,137,830		35,697		4,462	4,461
Federal Transit Administration - Federal Transit Capital Improvement Grant	20.500	NC-03-0040	1,221,495		11,328		1,416	1,416
Federal Transit Administration - Federal Capital Improvement Grant	20.505	NC-00-08-002	42,920		34,293		4,287	4,287
NC State Technology Funding	N/A	99-AT-001	17,559				17,559	
Passed-Through City of Durham, North Carolina:								
Federal Transit Administration - Highway Act of 1973 Section 104(f) Planning Grant	20.205	PL 104(F)	50,298		29,498			3,278
Total U.S. Department of Transportation					1,583,258		95,810	81,527

(10)

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount	Current Year Expenditures		
				Federal	State	Local
Federal Emergency Management Agency						
Federal Hurricane Relief	83.516		73,024			
Total Federal Emergency Management Agency						
U.S. Department of Housing and Urban Development						
Direct Programs:						
Community Development Block Grant Entitlement Program income	14.218	B-98-MC-37-0016 B-99-MC-37-0016 B-00-MC-37-0016	1,746,000	\$ 667,504	\$	27,884
Economic Development Initiative Grant	14.246	B-00-SPNC-0023	231,250	38,200		
Disaster Recovery Initiative Grant	14.218 14.219 14.228	B-98-MU-37-0016	349,041	322,841		
Public and Indian Housing Program - Operating Rental and other income	14.850	A-3963	870,043	870,043		422,324
Public and Indian Housing-	14.854	NC-19P04670199 NC-19DEF0460100	73,900 77,019	34,161 59,349		
Public and Indian Housing Comprehensive Grant Program	14.859	NC-19P04670598 NC-19P04670599	398,547 460,265	14,974 54,916		
Public and Indian Housing Capital Fund		NC-19P04650100	599,512	5,752		
Total U.S. Department of Housing and Urban Development						
				<u>2,067,740</u>		<u>450,208</u>



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SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2001

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Program or Award Amount		Current Year Expenditures		
					Federal	State	Local
U. S. Department of Justice							
Direct Programs:							
Community Oriented Policing Services	16.710	1998-UMWX-1488	712,500	\$	20,874	\$	145,749
Local Law Enforcement Block Grant	16.592	00-LBVXR-3191	55,583		55,583		
Passed-Through N. C. Department of Crime Control Public Safety			34,616				
Domestic Violence Grant	16.579	99-2VA-W-002	34,616				
Total U. S. Department of Justice					111,072		145,749
TOTAL FEDERAL ASSISTANCE					3,835,094	95,810	677,484
STATE ASSISTANCE							
North Carolina Department of Transportation			1,380,205			1,380,205	16,339
Powell Bill			16,339			1,396,995	
Interest			1,396,995			2,777,200	16,339
State Maintenance Assistance for Urban and Small Urban Areas							
Total North Carolina Department of Transportation						6,727	
State Hurricane Relief			4,013			4,013	
N.C. Clean Water Management Grant			34,748			34,748	
State Library Aid			48,119		48,119		
Governor's Crime Commission Grant			48,119		48,119		16,339
TOTAL STATE ASSISTANCE					3,883,213	2,918,498	693,823
TOTAL FINANCIAL ASSISTANCE							

12