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LGC-205 (Rev. 1/1/2004)

File in Triplicate.

## CONTRACT TO AUDIT ACCOUNTS

of Town of Chapel Hill, North Carolina  
Governmental UnitOn this 28<sup>th</sup> day of April, 2004, McGladrey & Pullen, LLP  
Auditor230 North Elm Street, Suite 1100, Greensboro, North Carolina 27402

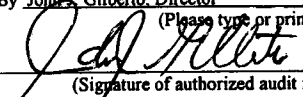
Mailing Address

, hereinafter referred to as

the Auditor, and The Town Council of the Town of Chapel Hill, North Carolina, 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, 2003, and ending June 30, 2004. The management's discussion and analysis, non-major combining, and individual fund statements and schedules shall be subjected to the auditing procedures applied in the audit of the basic financial statements and an opinion will be rendered in relation to (as applicable) the governmental activities, the business-type activities, the aggregate discreetly presented component units, each major governmental and enterprise fund, and the aggregate remaining fund information (nonmajor government and enterprise funds, the internal service fund type, and the fiduciary fund types).
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: None anticipated.
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: None anticipated.
5. If this audit engagement is subject to the standards for audit as defined in 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 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, 2004.
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 - [For audits subject to Government Auditing Standards, this is limited to bookkeeping services permitted by revised Independence Standards] - None**  
  
**Audit - \$45,000**  
  
**Preparation of the financial statements - None to be prepared by the town.**
10. After completing his audit, the Auditor shall submit to the Governing Board a written report of audit. This report shall include, at least, Management's Discussion and Analysis, 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. In addition, if the North Carolina Office of the State Auditor designates certain programs to be audited as major programs, a one page turnaround document and a representation letter addressed to the State Auditor shall be submitted to the Local Government Commission.  
  
Two copies of the report of audit should be submitted if the audit is performed only under the provisions 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.
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 therefore. 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: Refer to attached arrangement letter.
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.)

By John I. Gilberto, Director  
 \_\_\_\_\_  
 (Please type or print name)  
  
 \_\_\_\_\_  
 (Signature of authorized audit firm representative)  
 Date April 28, 2004

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 \_\_\_\_\_  
 \_\_\_\_\_  
 (Please type or print name and title)  
 \_\_\_\_\_  
 (Signature of Mayor or Chairperson of governing board)  
 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.

\_\_\_\_\_  
 Governmental Unit Finance Officer (Please type or print name)  
 \_\_\_\_\_  
 (Signature)  
 Date \_\_\_\_\_  
 (Preaudit Certificate must be dated.)