

**A RESOLUTION AWARDING THE CONTRACT FOR THE FY'2001-02 AUDIT
Resolution No. 150/2001-02**

**BE IT RESOLVED BY THE BOARD OF ALDERMEN OF THE TOWN OF
CARRBORO:**

**Section 1. That the contract for the FY'2001-02 audit be awarded to Dixon, Odom and
Company for a total cost of \$23,100.**

Section 2. This resolution shall become effective upon adoption.



DIXON ODOM PLLC

Certified Public Accountants and Consultants

May 13, 2002

Board of Aldermen
Town of Carrboro
Post Office Box 829
Carrboro, North Carolina 27510

We are pleased to confirm our understanding of the services we are to provide for the Town of Carrboro, North Carolina for the year ending June 30, 2002. We will audit the general purpose financial statements of the Town of Carrboro, North Carolina as of and for the year ending June 30, 2002. Also, the document we submit to you will include the following additional information that will be subjected to the auditing procedures applied in our audit of the general purpose financial statements:

1. Required combining and individual fund financial statements.
2. Schedule of expenditures of federal and state awards.

Audit Objectives

The objective of our audit is the expression of an opinion as to whether your general purpose financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the general purpose financial statements taken as a whole. The objective also includes reporting on the following:

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or 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 Amendments of 1996 and OMB circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The reports of internal control and compliance will each include a statement that the report is intended for the information and use of the audit committee, management specific legislative or regulatory bodies, federal and state awarding agencies, and if applicable, pass-through entities.

A member of
Moore's Rowland International



An association of independent
accounting firms throughout the world.

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P.O. Box 2646
High Point, NC 27261-2646
336-889-5156, Fax 336-889-6168

Our audit will be conducted in accordance with generally accepted auditing standards; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of the accounting records, a determination of major programs in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such an opinion and to render the required reports. If our opinion on the general purpose financial statements or the Single Audit compliance opinion is other than unqualified, we will fully 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 may not issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for establishing and maintaining internal control and for compliance with the provisions of contracts, agreements, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal and state awards programs are managed in compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making all financial records and related information available to us. We understand that you will provide us with such information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, including the schedule of expenditures of federal and state awards, but the responsibility for the financial statements remains with you. This responsibility includes the establishment and maintenance of adequate records and effective internal control over financial reporting and compliance, the selection and application of accounting principles, and the safeguarding of assets. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow-up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review.

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. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, our audit will include tests of transactions related to major federal and state awards programs for compliance with applicable laws and regulations

and the provisions of contracts and grant agreements. Because of the concept of reasonable assurance and because we will not perform a detailed examination of all transactions, there is a risk that material errors, fraud, other illegal acts, or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect errors, fraud or other illegal acts that are immaterial to the general purpose financial statements or to major programs. However, we will inform you of any material errors and any fraud that come to our attention. We will also inform you of any other illegal acts that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any 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, 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 also request certain written representations from you about the financial statements and related matters.

Audit Procedures - Internal Controls

In planning and performing our audit, we will consider the internal control sufficient to plan the audit to determine the nature, timing and extent of our auditing procedures for the purpose of expressing our opinions on the Town of Carrboro, North Carolina's general purpose financial statements and on its compliance with requirements applicable to major programs.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. 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 general purpose 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 general purpose financial statements. Tests of controls relative to the general purpose financial statements are required only if control risk is assessed below the maximum level. 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 OMB Circular A-133, we will perform tests of controls to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal and state awards program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, we will inform the governing body or audit committee of any matters involving internal control and its operation that we consider to be reportable conditions under

standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. We will also inform you of any nonreportable conditions or other matters involving internal control, if any, as required by OMB Circular A-133.

Audit Procedures - Compliance

Our audit will be conducted in accordance with the standards referred to in the section titled Audit Objectives. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we will perform tests of the Town of Carrboro, North Carolina's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of the applicable procedures described in the *OMB Circular A-133 Compliance Supplement*. The purpose of these procedures will be to express an opinion on the Town of Carrboro, North Carolina's compliance with requirements applicable to major programs in our report on compliance issued pursuant to OMB Circular A-133.

Audit Administration, Fees, and Other

We understand that your employees will prepare all cash or other confirmations, will prepare certain audit schedules, and will locate any invoices selected by us for testing.

The workpapers for this engagement are the property of Dixon Odom PLLC and constitute confidential information. However, we may be requested to make certain workpapers available to your cognizant agency pursuant to authority given to it by law or regulation. If requested, access to such workpapers will be provided under the supervision of Dixon Odom PLLC personnel. Furthermore, upon request, we may provide photocopies of selected workpapers to your cognizant agency. The cognizant agency may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

The workpapers for this engagement will be retained for a minimum of three years after the date the auditors' report is issued or for any additional period requested by the cognizant agency. If we are aware that a federal or state awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the workpapers.

The Town of Carrboro
May 13, 2002
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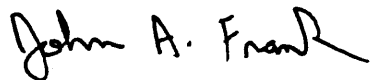
Our fees will be \$23,100 for the services outlined herein. For any services that we may perform that are not so covered herein, individual hourly rates may be charged according to the degree of responsibility involved and the skill required, provided that no compensation beyond the \$23,100 shall be due and payable unless the additional services are approved in advance and in writing.

Government Auditing Standards require that we provide you with a copy of our most recent quality control review report. Our 1999 peer review report accompanies this letter.

We appreciate the opportunity to be of service to the Town of Carrboro, North Carolina 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,

DIXON ODOM PLLC



John A. Frank, CPA
Member of the Firm

JAF/ct

RESPONSE:

This letter correctly sets forth the understanding of the Town of Carrboro, North Carolina.

By: _____

Title: _____

Date: _____



Postlethwaite & Netterville

A Professional Accounting Corporation
CERTIFIED PUBLIC ACCOUNTANTS

8550 UNITED PLAZA BLVD., SUITE 1001 • BATON ROUGE, LOUISIANA 70809 • TELEPHONE (504) 922-4600 • FAX (504) 922-4611

To the Members
Dixon Odom PLLC

We have reviewed the system of quality control for the accounting and auditing practice of Dixon Odom PLLC (the firm) in effect for the year ended February 28, 1999. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (the "AICPA"). The design of the system, and compliance with it, are the responsibilities of the firm. In addition, the firm has agreed to comply with the membership requirements of the SEC Practice Section of the AICPA Division for CPA Firms (the Section). Our responsibility is to express an opinion on the design of the system, and the firm's compliance with that system and the Section's membership requirements based on our review.

Our review was conducted in accordance with standards established by the Peer Review Committee of the Section. In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures and with the membership requirements of the Section to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it or with the membership requirements of the Section. As is customary in a peer review, we are issuing a letter under this date that sets forth comments relating to certain policies and procedures or compliance with them. These matters were not considered to be of sufficient significance to affect the opinion expressed in this report.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of Dixon Odom PLLC in effect for the year ended February 28, 1999, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA, and was complied with during the year then ended to provide the firm with reasonable assurance of complying with professional standards. Also, in our opinion, the firm has complied with the membership requirements of the Section in all material respects.

Postlethwaite & Netterville

November 3, 1999

CONTRACT TO AUDIT ACCOUNTS

of Town of Carrboro, North Carolina
Governmental Unit

On this 13th day of May, 2002, Dixon Odom PLLC
Auditor

Post Office Box 2646, High Point, North Carolina 27261
Mailing Address

hereinafter referred to as

the Auditor, and the Board of Aldermen of Town of Carrboro, 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, 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:

See attached engagement letter.

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 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, 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 - \$3,600
Audit - \$15,500
Preparation of the financial statements - \$4,000

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.

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:

See attached engagement 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.)
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 Dixon Odom PLLC
(Please type or print name)
John A. Frank
(Signature of authorized audit firm representative)
Date May 13, 2002

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 _____
(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.)