



Martin Starnes & Associates, CPAs, P.A.

A Professional Association of Certified Public Accountants and Management Consultants

January 7, 2009

Kim Kenny, Finance Officer
Town of Nags Head
P.O. Box 99
5401 South Croatan Highway
Nags Head, NC 27959

Dear Ms. Kenny:

We are in the third year of our audit relationship with Town of Nags Head and it has been a pleasure to provide audit services to the Town. We are looking forward to a long relationship with the Town that will allow us to become more efficient in our procedures and offer even better management suggestions as a result of our knowledge of the Town's operations.

The audit relationship is much more than a commodity product, therefore, the Local Government Commission does not require the services to be re-bid at the end of a service agreement. We are proud of the level of service we offer and believe that to be the reason we have a near 100% renewal rate with our government clients. We would rather negotiate a three year extension of our agreement rather than subject the relationship to the bidding process. If the Town is pleased with the service, then fees are the only variable and I am certain we can come to terms as it relates to fees.

In the past few years, much talk has been made about mandatory auditor rotations. This concept in fact is related to the audit team, not the audit firm. We are required by our auditing standards to maintain our independence and we can assure the Town that Martin Starnes & Associates takes compliance with the independence standard seriously. We rotate our audit teams as a normal course of business due to staff growth. We re-invent the audit process on each year during the planning stage to make sure we are addressing the pertinent risk areas of the Town's audit. Quite frankly, we study trends, and therefore, a long audit relationship, if managed properly, is a great benefit to the Town.

834

Our fees for the fiscal years ending June 30, 2009 – 2011 are proposed as follows:

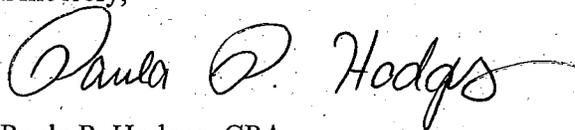
Town of Nags Head:

| | |
|------|-----------|
| 2009 | \$ 28,800 |
| 2010 | \$ 28,800 |
| 2011 | \$ 28,800 |

Our proposed fees result in no increase to the Town for fiscal years ending 2009 - 2011.

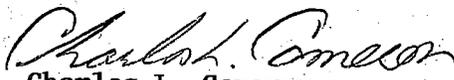
I am looking forward to your acceptance of our service extension agreement.

Sincerely,



Paula P. Hodges, CPA
Director, Audit Services

If you agree with the service extension agreement above, please sign the enclosed copy of this letter in the space indicated and return it to our office. A copy is enclosed for your records.

Accepted by: 
Charles L. Cameron

Title: Town Manager, Town of Nags Head Date: 1-14-09

Accepted by: _____

Title: _____ Date: _____

CONTRACT TO AUDIT ACCOUNTS

RECEIVED 834
MAR 27 2009
LOCAL GOVERNMENT
COMMISSION

of Town of Nags Head, NC
Governmental Unit

On this 9th day of March, 2009, Martin Starnes & Associates, CPAs, P.A.
Auditor

730 13th Avenue Drive SE, Hickory, NC 28602

Mailing Address

Auditor

hereinafter referred to as

the Auditor, and Board of Commissioners of Town of Nags Head, 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, 2008, and ending June 30, 2009. 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 will be rendered in relation to (as applicable) the governmental activities, the business-type activities, the aggregate discretely 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/her audit and render his/her 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. This audit and all associated workpapers 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 LGC. If the audit and/or workpapers 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.
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 Government Auditing Standards, July 2007 revisions, issued by the Comptroller General of the United States, then the Auditor warrants by accepting this engagement 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 to the Governmental Unit and the Secretary of the Local Government Commission prior to the execution of the audit contract. (See Item 21.)
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, 2009.
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 "significant deficiencies and material weaknesses" 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.) [G.S. 159-34 and 115C-447] 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] Standard hourly rates ranging from \$75-\$250 per hour

Audit - \$28,800

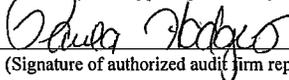
Preparation of the financial statements - Prepared by client; fee includes 30 copies of report and GASB 34 assistance
10. After completing his audit, the Auditor shall submit to the Governing Board a written report of audit. This report shall include, at least, Management's Discussion and Analysis, the 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 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. Three copies of the audit should be submitted for Councils of Governments. Two copies of the audit should be submitted for tax levying Municipalities. 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 (the auditors' opinion is not included), by municipal bond rating services, to fulfill secondary market disclosure requirements of the Securities and Exchange Commission, and other lawful purposes of the government, without subsequent consent of the auditor.
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. 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. The mailing address is 325 North Salisbury Street, Raleigh, North Carolina 27603-1385. The physical address is 4505 Fair Meadow Lane, Suite 102, Raleigh, North Carolina 27607-6449.
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 22. 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 16.)

Firm Martin Starnes & Associates, CPAs, P.A.

By Paula Hodges, Audit Director

(Please type or print name)



(Signature of authorized audit firm representative)

Date March 9, 2009

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.

SHARON EDMUNDSON

For the Secretary, Local Government Commission



(Signature)

Date APR 03 2009

By M. Renee Cahoon, Mayor

(Please type or print name and title)



(Signature of Mayor/Chairperson of governing board)

Date 3/23/09

By N/A

(Chair of Audit Committee- please type or print name)

(Signature of Audit Committee Chairperson)

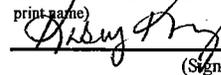
Date

(If unit has no 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.

Kim Kenny, Finance Officer

Governmental Unit Finance Officer (Please type or print name)



(Signature)

Date

3-19-09

(Preaudit Certificate **must** be dated.)



BOYCE, FURR & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

RECEIVED

MAR 27 2009

LOCAL GOVERNMENT
COMMISSION

SAMUEL A. BOYCE, PARTNER
BOBBIE W. FURR, PARTNER

SANDY P. NEWELL, CPA
JULIE A. BYRD, CPA
JO ELLEN B. LOY, CPA
DAVID E. BOYCE, CPA

January 25, 2006

Martin Starnes & Associates, CPAs, P.A.

We have reviewed the system of quality control for the accounting and auditing practice of Martin Starnes & Associates, CPAs, P.A. (the firm) in effect for the year ended June 30, 2005. A system of quality control encompasses the firm's organizational structure, the policies adopted, and procedures established to provide it with reasonable assurance of conforming 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 (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system and the firm's compliance with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer review Board of the AICPA. During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagements selected included, among others, engagements performed under *Government Auditing Standards*. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

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 to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Our review was based on selective tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. 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 because 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 Martin Starnes & Associates, CPAs, P.A. in effect for the year ended June 30, 2005, 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 conforming with professional standards.

Boyce, Furr & Company, LLP

BOYCE, FURR & COMPANY, LLP