

The	Governing Board Board of Commissioners
of	Primary Government Unit Town of Holden Beach, NC
and	Discretely Presented Component Unit (DPCU) (if applicable) N/A

*Primary Government Unit, together with DPCU (if applicable), hereinafter referred to as Governmental Unit(s)*

and	Auditor Name Martin Starnes & Associates, CPAs, P.A.
	Auditor Address 730 13th Avenue Drive SE, Hickory, NC 28602

*Hereinafter referred to as Auditor*

for	Fiscal Year Ending 06/30/24	Date Audit Will Be Submitted to LGC 10/31/24
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*Must be within four months of FYE*

hereby agree as follows:

- The Auditor shall audit all statements and disclosures required by U.S. generally accepted auditing standards (GAAS) and additional required legal statements and disclosures of all funds and/or divisions of the Governmental Unit(s). 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). The basic financial statements shall include budgetary comparison information in a budgetary comparison statement, rather than as RSI, for the General Fund and any annually budgeted Special Revenue funds.
- At a minimum, the Auditor shall conduct the audit and render the report in accordance with GAAS. The Auditor shall perform the audit in accordance with *Government Auditing Standards (GAGAS)* if the Governmental Unit expended \$100,000 or more in combined Federal and State financial assistance during the reporting period. The auditor shall perform a Single Audit if required by Title 2 US Code of Federal Regulations Part 200 *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart F* (Uniform Guidance) or the State Single Audit Implementation Act. 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 requires a federal single audit in accordance with the Uniform Guidance (§200.501), it is recommended that the Auditor and Governmental Unit(s) jointly agree, in advance of the execution of this contract, which party is responsible for submission of the audit and the accompanying data collection form to the Federal Audit Clearinghouse as required under the Uniform Guidance (§200.512).

Effective for audits of fiscal years beginning on or after June 30, 2023, the LGC will allow auditors to consider whether a unit qualifies as a State low-risk auditee based upon federal criteria in the Uniform Guidance §200.520(a), and (b) through (e) as it applies to State awards. In addition to the federal criteria in the Uniform Guidance, audits must have been submitted timely to the LGC. If in the reporting year, or in either of the two previous years, the unit reported a Financial Performance Indicator of Concern that the audit was late, then

the report was not submitted timely for State low-risk auditee status. Please refer to "Discussion of Single Audits in North Carolina" on the LGC's website for more information.

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).

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 unmodified opinion being rendered. If during the process of conducting the audit, the Auditor determines that it will not be possible to render an unmodified opinion on the financial statements of the unit, the Auditor shall contact the LGC 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.

5. If this audit engagement is subject to the standards for audit as defined in *Government Auditing Standards*, 2018 revision, issued by the Comptroller General of the United States, then by accepting this engagement, the Auditor warrants 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 the most recent peer review report to the Governmental Unit(s) and the Secretary of the LGC prior to the execution of an audit contract. Subsequent submissions of the report are required only upon report expiration or upon auditor's receipt of an updated peer review report. If the audit firm received a peer review rating other than pass, the Auditor shall not contract with the Governmental Unit(s) 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 Auditing Standards* or if financial statements are not prepared in accordance with U.S. generally accepted accounting principles (GAAP) and fail to include all disclosures required by GAAP, the Auditor shall provide an explanation as to why in an attachment to this contract or in an amendment.

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 LGC Staff within four months of fiscal year end. If it becomes necessary to amend the audit fee or the date that the audit report will be submitted to the LGC, an amended contract along with a written explanation of the change shall be submitted to the Secretary of the LGC for approval.

7. It is agreed that GAAS include a review of the Governmental Unit's (Units') 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/her 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.

For GAAS or *Government Auditing Standards* audits, if an auditor issues an AU-C §260 report, commonly referred to as "Governance Letter," LGC staff does not require the report to be submitted unless the auditor cites significant findings or issues from the audit, as defined in AU-C §260.12 - .14. This would include issues such as difficulties encountered during the audit, significant or unusual transactions, uncorrected misstatements, matters that are difficult or contentious reviewed with those charged with governance, and other significant matters. If matters identified during the audit were required to be reported as described in AU-C §260.12-.14 and were communicated in a method other than an AU-C §260 letter, the written documentation must be submitted.

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. Approval is also required for the Alternative Compliance Examination Engagement for auditing the Coronavirus State and Local Fiscal Recovery Funds expenditures as allowed by US Treasury. Approval is not required on audit contracts and invoices for system improvements and similar services of a non-auditing nature.
9. Invoices for services rendered under these contracts shall not be paid by the Governmental Unit(s) 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 invoice marked 'approved' with approval date shall be returned to the Auditor to present to the Governmental Unit(s) for payment. This paragraph is not applicable to contracts for audits of hospitals.
10. In consideration of the satisfactory performance of the provisions of this contract, the Governmental Unit(s) shall pay to the Auditor, upon approval by the Secretary of the LGC if required, the fee, which includes any costs 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. 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 13).
11. If the Governmental Unit(s) has/have outstanding revenue bonds, the Auditor shall submit to LGC Staff, either in the notes to the audited financial statements or as a separate report, a calculation demonstrating compliance with the revenue bond rate covenant. Additionally, the Auditor shall submit to LGC Staff simultaneously with the Governmental Unit's (Units') audited financial statements any other bond compliance statements or additional reports required by the authorizing bond documents, unless otherwise specified in the bond documents.
12. 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(s) and all of its component units prepared in accordance with GAAP, (c) supplementary information requested by the Governmental Unit(s) 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 upon completion.
13. 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(s) shall not be billed for the pre-issuance review. The pre-issuance review shall be performed prior to the completed audit being submitted to LGC Staff. The pre-issuance review report shall accompany the audit report upon submission to LGC Staff.

14. The Auditor shall submit the report of audit in PDF format to LGC Staff. For audits of units other than hospitals, the audit report should be submitted when (or prior to) submitting the final 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 LGC by any interested parties. Any subsequent revisions to these reports shall be sent to the Secretary of the LGC. 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(s) without requiring consent of the Auditor. If the LGC Staff determines that corrections need to be made to the Governmental Unit's (Units') financial statements and/or the compliance section, those corrections shall be provided within three business days of notification unless another deadline is agreed to by LGC Staff.

15. 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 modified or amended to include the increased time, compensation, or both as may be agreed upon by the Governing Board and the Auditor.

16. If an approved contract needs to be modified or amended for any reason, the change shall be made in writing and pre-audited if the change includes a change in audit fee (pre-audit requirement does not apply to hospitals). 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 to the Secretary of the LGC for approval. No change to the audit contract shall be effective unless approved by the Secretary of the LGC.

17. A copy of the engagement letter, issued by the Auditor and signed by both the Auditor and the Governmental Unit(s), shall be attached to this contract, and except for fees, work, and terms not related to audit services, shall be incorporated by reference as if fully set forth herein as part of this 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 30 of this contract. Engagement letters containing indemnification clauses shall not be accepted by LGC Staff.

18. Special provisions should be limited. Please list any special provisions in an attachment.

19. 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 primary 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.

20. The contract shall be executed, pre-audited (pre-audit requirement does not apply to hospitals), and physically signed by all parties including Governmental Unit(s) and the Auditor, then submitted in PDF format to the Secretary of the LGC.

21. 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.

22. Retention of Client Records: Auditors are subject to the NC State Board of CPA Examiners' Retention of Client Records Rule 21 NCAC 08N .0305 as it relates to the provision of audit and other attest services, as well as non-attest services. Clients and former clients should be familiar with the requirements of this rule prior to requesting the return of records.

23. This contract may be terminated at any time by mutual consent and agreement of the Governmental Unit(s) and the Auditor, provided that (a) the consent to terminate is in writing and signed by both parties, (b) the parties have agreed on the fee amount which shall be paid to the Auditor (if applicable), and (c) no termination shall be effective until approved in writing by the Secretary of the LGC.

24. The Governmental Unit's (Units') failure or forbearance to enforce, or waiver of, any right or an event of breach or default on one occasion or instance shall not constitute the waiver of such right, breach or default on any subsequent occasion or instance.

25. 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.

26. 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.

27. **Applicable to audits with fiscal year ends of June 30, 2020 and later.** For all non-attest services, the Auditor shall adhere to the independence rules of the AICPA Professional Code of Conduct and *Government Auditing Standards, 2018 Revision* (as applicable). 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. If the Auditor cannot reduce the threats to an acceptable level, the Auditor cannot complete the audit. If the Auditor is able to reduce the threats to an acceptable level, the documentation of this determination, including the safeguards applied, must be included in the audit workpapers.

All non-attest service(s) being performed by the Auditor that are necessary to perform the audit must be identified and included in this contract. The Governmental Unit shall designate an individual with the suitable skills, knowledge, and/or experience (SKE) necessary to oversee the services and accept responsibility for the results of the services performed. If the Auditor is able to identify an individual with the appropriate SKE, s/he must document and include in the audit workpapers how he/she reached that conclusion. If the Auditor determines that an individual with the appropriate SKE cannot be identified, the Auditor cannot perform both the non-attest service(s) and the audit. See "Fees for Audit Services" page of this contract to disclose the person identified as having the appropriate SKE for the Governmental Unit.

28. **Applicable to audits with fiscal year ends of June 30, 2021 and later.** The auditor shall present the audited financial statements including any compliance reports to the government unit's governing body or audit committee in an official meeting in open session as soon as the audited financial statements are available but not later than 45 days after the submission of the audit report to the Secretary. The auditor's presentation to the government unit's governing body or audit committee shall include:

- a) the description of each finding, including all material weaknesses and significant deficiencies, as found by the auditor, and any other issues related to the internal controls or fiscal health of the government unit as disclosed in the management letter, the Single Audit or Yellow Book reports, or any other communications from the auditor regarding internal controls as required by current auditing standards set by the Accounting Standards Board or its successor;
- b) the status of the prior year audit findings;
- c) the values of Financial Performance Indicators based on information presented in the audited financial statements; and
- d) notification to the governing body that the governing body shall develop a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters," if required under 20 NCAC 03 .0508.

29. Information based on the audited financial statements shall be submitted to the Secretary for the purpose of identifying Financial Performance Indicators and Financial Performance Indicators of Concern. See 20 NCAC 03 .0502(c)(6).

30. All of the above paragraphs are understood and shall apply to this contract, except the following numbered paragraphs shall be deleted (See Item 17 for clarification).

31. The process for submitting contracts, audit reports and invoices is subject to change. Auditors and units should use the submission process and instructions in effect at the time of submission. Refer to the N.C. Department of State Treasurer website at <https://www.nctreasurer.com/state-and-local-government-finance-division/local-government-commission/submitting-your-audit>

32. All communications regarding audit contract requests for modification or official approvals will be sent to the email addresses provided on the signature pages that follow.

33. Modifications to the language and terms contained in this contract form (LGC-205) are not allowed.

**FEEES FOR AUDIT SERVICES**

1. For all non-attest services, the Auditor shall adhere to the independence rules of the AICPA Professional Code of Conduct (as applicable) and *Government Auditing Standards, 2018 Revision*. Refer to Item 27 of this contract for specific requirements. The following information must be provided by the Auditor; contracts presented to the LGC without this information will not be approved.

Financial statements were prepared by:  Auditor  Governmental Unit  Third Party

If applicable: Individual at Governmental Unit designated to have the suitable skills, knowledge, and/or experience (SKE) necessary to oversee the non-attest services and accept responsibility for the results of these services:

**Name:**  **Title and Unit / Company:**  **Email Address:**

OR Not Applicable  (Identification of SKE Individual on the LGC-205 Contract is not applicable for GAAS-only audits or audits with FYEs prior to June 30, 2020.)

2. Fees may not be included in this contract for work performed on Annual Financial Information Reports (AFIRs), Form 990s, or other services not associated with audit fees and costs. Such fees may be included in the engagement letter but may not be included in this contract or in any invoices requiring approval of the LGC. See Items 8 and 13 for details on other allowable and excluded fees.

3. The audit fee information included in the table below for both the Primary Government Fees and the DPCU Fees (if applicable) should be reported as a specific dollar amount of audit fees for the year under this contract. If any language other than an amount is included here, the contract will be returned to the audit form for correction.

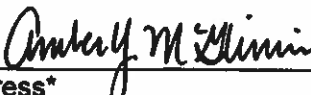
4. Prior to the submission of the completed audited financial report and applicable compliance reports subject to this contract, or to an amendment to this contract (if required) the Auditor may submit interim invoices for approval for services rendered under this contract to the Secretary of the LGC, not to exceed 75% of the billings for the unit's last annual audit that was submitted to the Secretary of the LGC. All invoices for services rendered in an audit engagement as defined in 20 NCAC .0503 shall be submitted to the Commission for approval before any payment is made. Payment before approval is a violation of law. (This paragraph not applicable to contracts and invoices associated with audits of hospitals).

<b>Primary Government Unit</b>	Town of Holden Beach, NC
Audit Fee (financial and compliance if applicable)	\$ 38,875 (\$35,125 audit + \$3,750 single audit for up to 2 programs)
Fee per Major Program (if not included above)	\$ 3,750 per major program in excess of 2
<b>Additional Fees Not Included Above (if applicable):</b>	
Financial Statement Preparation (incl. notes and RSI)	\$ 3,900
All Other Non-Attest Services	\$
<b>TOTAL AMOUNT NOT TO EXCEED</b>	<b>\$ 46,525 (includes 3 major programs)</b>

<b>Discretely Presented Component Unit</b>	N/A
Audit Fee (financial and compliance if applicable)	\$
Fee per Major Program (if not included above)	\$
<b>Additional Fees Not Included Above (if applicable):</b>	
Financial Statement Preparation (incl. notes and RSI)	\$
All Other Non-Attest Services	\$
<b>TOTAL AMOUNT NOT TO EXCEED</b>	<b>\$</b>

**SIGNATURE PAGE**

**AUDIT FIRM**

Audit Firm* Martin Starnes & Associates, CPAs, P.A.	
Authorized Firm Representative (typed or printed)* Amber Y. McGhinnis	Signature* 
Date* 02/05/24	Email Address* amcghinnis@msa.cpa

**GOVERNMENTAL UNIT**

Governmental Unit* Town of Holden Beach, NC	
Date Governing Board Approved Audit Contract* (Enter date in box to right)	
Mayor/Chairperson (typed or printed)* J. Alan Holden, Mayor	Signature*
Date	Email Address* alan@alanholdenrealty.com

Chair of Audit Committee (typed or printed, or "NA") Tom Myers	Signature
Date	Email Address tmmyers56@gmail.com

**GOVERNMENTAL UNIT – PRE-AUDIT CERTIFICATE**

Required by G.S. 159-28(a1) or G.S. 115C-441(a1). Not applicable to hospital contracts.

*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.*

Sum Obligated by This Transaction:	\$ 46,525 (includes 3 major programs)
Primary Governmental Unit Finance Officer* (typed or printed) Daniel McRainey, Finance Officer	Signature*
Date of Pre-Audit Certificate*	Email Address* dmcrainey@hbtownhall.com



**SIGNATURE PAGE – DPCU  
(complete only if applicable)**

**DISCRETELY PRESENTED COMPONENT UNIT**

DPCU* N/A	
Date DPCU Governing Board Approved Audit Contract* (Enter date in box to right)	
DPCU Chairperson (typed or printed)*	Signature*
Date*	Email Address*

Chair of Audit Committee (typed or printed, or "NA") N/A	Signature
Date	Email Address

**DPCU – PRE-AUDIT CERTIFICATE**

Required by G.S. 159-28(a1) or G.S. 115C-441(a1). Not applicable to hospital contracts.

*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.*

Sum Obligated by this Transaction:	\$
DPCU Finance Officer (typed or printed)* N/A	Signature*
Date of Pre-Audit Certificate*	Email Address*

Remember to print this form, and obtain all required signatures prior to submission.

**PRINT**



**Report on the Firm's System of Quality Control**

To the Shareholders of Martin Starnes & Associates, CPAs, P.A. and the Peer Review Committee, Coastal Peer Review, Inc.

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 December 31, 2020. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

**Firm's Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

**Peer Reviewer's Responsibility**

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

**Required Selections and Considerations**

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act and an audit of an employee benefit plan.

As part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

**Opinion**

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 December 31, 2020, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Martin Starnes & Associates, CPAs, P.A. has received a peer review rating of *pass*.

*Koonce, Wooten & Haywood, LLP*

Koonce, Wooten & Haywood, LLP

May 4, 2021

**Raleigh**  
 4060 Barrett Drive  
 Post Office Box 17806  
 Raleigh, North Carolina 27619  
  
 919 782 9265  
 919 783 8937 FAX

**Durham**  
 3500 Westgate Drive  
 Suite 203  
 Durham, North Carolina 27707  
  
 919 354 2584  
 919 489 8183 FAX

**Pittsboro**  
 579 West Street  
 Post Office Box 1399  
 Pittsboro, North Carolina 27312  
  
 919 542 6000  
 919 542 5764 FAX

**Smithfield**  
 212 East Church Street  
 Post Office Box 2348  
 Smithfield, North Carolina 27577  
  
 919 934 1121  
 919 934 1217 FAX

# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

*"A Professional Association of Certified Public Accountants and Management Consultants"*

February 5, 2024

Town of Holden Beach  
Attn: Daniel McRaney, Finance Officer  
110 Rothschild Street  
Holden Beach, NC 28462

The following represents our understanding of the services we will provide the Town of Holden Beach.

You have requested that we audit the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Holden Beach, NC, as of June 30, 2024, and for the year then ended, and the related notes to the financial statements, which collectively comprise the Town of Holden Beach's basic financial statements as listed in the table of contents.

In addition, we will audit the entity's compliance over major federal and state award programs for the period ended June 30, 2024. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audits will be conducted with the objectives of our expressing an opinion on each opinion unit and an opinion on compliance regarding the entity's major federal and state award programs. The objectives of our audit of the financial statements are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and in accordance with *Government Auditing Standards* will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

The objectives of our compliance audit are to obtain sufficient appropriate audit evidence to form an opinion and report at the level specified in the governmental audit requirement about whether the entity complied in all material respects with the applicable compliance requirements and identify audit and reporting requirements specified in the governmental audit requirement that are supplementary to GAAS and *Government Auditing Standards*, if any, and perform procedures to address those requirements.

Accounting principles generally accepted in the United States of America require that certain supplementary information be presented to supplement the 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 the required supplementary information (RSI) in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI. The following RSI is required by accounting principles generally accepted in the United States of America. This RSI will be subjected to certain limited procedures but will not be audited:

- Management's Discussion and Analysis
- Law Enforcement Officers' Special Separation Allowance schedules
- Local Governmental Employees' Retirement System's schedules

Supplementary information other than RSI will accompany the Town of Holden Beach's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling the supplementary information to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and additional procedures in accordance with auditing standards generally accepted in the United States of America. We intend to provide an opinion on the following supplementary information in relation to the financial statements as a whole:

- Combining and individual fund financial statements (if applicable)
- Budgetary schedules
- Other schedules
- Schedule of Expenditures of Federal and State Awards

#### **Schedule of Expenditures of Federal and State Awards**

We will subject the Schedule of Expenditures of Federal and State Awards to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling the schedule to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and additional procedures in accordance with auditing standards generally accepted in the United States of America. We intend to provide an opinion on whether the Schedule of Expenditures of Federal and State Awards is presented fairly in all material respects in relation to the financial statements as a whole.

#### **Data Collection Form (if applicable)**

Prior to the completion of our engagement, we will complete the sections of the Data Collection Form that are our responsibility. The form will summarize our audit findings, amounts and conclusions. It is management's responsibility to submit a reporting package including financial statements, Schedule of Expenditures of Federal and State Awards, summary schedule of prior audit findings and corrective action plan along with the Data Collection Form to the Federal Audit Clearinghouse. The financial reporting package must be text searchable, unencrypted, and unlocked. Otherwise, the reporting package will not be accepted by the Federal Audit Clearinghouse. We will assist you in the electronic submission and certification. You may request from us copies of our report for you to include with the reporting package submitted to pass-through entities.

The Data Collection Form is required to be submitted within the *earlier* of 30 days after receipt of our auditors' reports or nine months after the end of the audit period, unless specifically waived by a federal cognizant or oversight agency for audits. Data Collection Forms submitted untimely are one of the factors in assessing programs at a higher risk.

### **Audit of the Financial Statements**

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. As part of an audit of financial statements in accordance with GAAS and in accordance with *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Holden Beach's ability to continue as a going concern for a reasonable period of time.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS and *Government Auditing Standards* of the Comptroller General of the United States of America. Please note that the determination of abuse is subjective and *Government Auditing Standards* does not require auditors to detect abuse.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to any other periods.

We will issue a written report upon completion of our audit of the Town of Holden Beach's basic financial statements. Our report will be addressed to the governing body of the Town of Holden Beach. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph(s) to our auditor's report, or if necessary, withdraw from the engagement. If our opinions on the basic financial statements 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 to issue a report as a result of this engagement.

In accordance with the requirements of *Government Auditing Standards*, we will also issue a written report describing the scope of our testing over internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control and compliance over financial reporting will not be an objective of the audit and, therefore, no such opinion will be expressed.

### **Audit of Major Program Compliance**

Our audit of the Town of Holden Beach's major federal and state award program(s) compliance will be conducted in accordance with the requirements of the Single Audit Act, as amended, the Uniform Guidance, and the State Single Audit Implementation Act, and will include tests of accounting records, a determination of major programs in accordance with the Uniform Guidance and the State Single Audit Implementation Act and other procedures we consider necessary to enable us to express such an opinion on major federal and state award program compliance and to render the required reports. We cannot provide assurance that an unmodified opinion on compliance will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or withdraw from the engagement.

The Uniform Guidance and the State Single Audit Implementation Act require that we also plan and perform the audit to obtain reasonable assurance about whether material noncompliance with applicable laws and regulations, the provisions of contracts and grant agreements applicable to major federal and state award programs, and the applicable compliance requirements occurred, whether due to fraud or error, and express an opinion on the entity's compliance based on the audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the entity's compliance with the requirements of the federal or state programs as a whole.

As part of a compliance audit in accordance with GAAS and *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit. We also identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks.

Our procedures will consist of determining major federal and state programs and, performing the applicable procedures described in the U.S. Office of Management and Budget *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the entity's major programs, and performing such other procedures as we consider necessary in the circumstances. The purpose of those procedures will be to express an opinion on the entity's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance and the State Single Audit Implementation Act.

Also, as required by the Uniform Guidance and the State Single Audit Implementation Act, we will obtain an understanding of the entity's internal control over compliance relevant to the audit in order to design and 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 of the entity's major federal and state award programs. Our tests will be less in scope

than would be necessary to render an opinion on these controls and, accordingly, no opinion will be expressed in our report. However, we will communicate to you, regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we have identified during the audit.

We will issue a report on compliance that will include an opinion or disclaimer of opinion regarding the entity's major federal and state award programs, and a report on internal controls over compliance that will report any significant deficiencies and material weaknesses identified; however, such report will not express an opinion on internal control.

### **Management's Responsibilities**

Our audit will be conducted on the basis that management and, when appropriate, those charged with governance, acknowledge and understand that they have responsibility:

1. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
2. For the design, implementation, and maintenance of the system of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
3. For identifying, in its accounts, all federal and state awards received and expended during the period and the federal and State programs under which they were received;
4. For maintaining records that adequately identify the source and application of funds for federal and state funded activities;
5. For preparing the Schedule of Expenditures of Federal and State Awards (including notes and noncash assistance received) in accordance with the Uniform Guidance and State Single Audit Implementation Act;
6. For designing, implementing, and maintaining effective internal control over federal and state awards that provides reasonable assurance that the entity is managing federal and state awards in compliance with federal and state statutes, regulations, and the terms and conditions of the federal and state awards;
7. For identifying and ensuring that the entity complies with federal and state laws, statutes, regulations, rules, provisions of contracts or grant agreements, and the terms and conditions of federal and state award programs, and implementing systems designed to achieve compliance with applicable federal and state statutes, regulations and the terms and conditions of federal and state award programs;
8. For disclosing accurately, currently and completely the financial results of each federal and state award in accordance with the requirements of the award;
9. For identifying and providing report copies of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented;
10. For taking prompt action when instances of noncompliance are identified;
11. For addressing the findings and recommendations of auditors, for establishing and maintaining a process to track the status of such findings and recommendations and taking corrective action on reported audit findings from prior periods and preparing a summary schedule of prior audit findings;
12. For following up and taking corrective action on current year audit findings and preparing a corrective action plan for such findings;
13. For submitting the reporting package and data collection form to the appropriate parties;
14. For making the auditor aware of any significant contractor relationships where the contractor is responsible for program compliance;

15. To provide us with:
  - a. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements including the disclosures, and relevant to federal and state award programs, such as records, documentation, and other matters;
  - b. Additional information that we may request from management for the purpose of the audit;
  - c. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
  - d. A written acknowledgement of all the documents that management expects to issue that will be included in the annual report and the planned timing and method of issuance of that annual report (if applicable); and
  - e. A final version of the annual report (including all the documents that, together, comprise the annual report) in a timely manner prior to the date of the auditor's report (if applicable).
16. For adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current year or period(s) under audit are immaterial, both individually and in the aggregate, to the financial statements as a whole;
17. For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
18. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets;
19. For informing us of any known or suspected fraud affecting the entity involving management, employees with significant roles in the system of internal control and others where fraud could have a material effect on compliance;
20. For the accuracy and completeness of all information provided;
21. For taking reasonable measures to safeguard protected personally identifiable and other sensitive information; and
22. For confirming your understanding of your responsibilities as defined in this letter to us in your management representation letter.

With regard to the Schedule of Expenditures of Federal and State Awards referred to above, you acknowledge and understand your responsibility (a) for the preparation of the Schedule of Expenditures of Federal and State Awards in accordance with the Uniform Guidance and the State Single Audit Implementation Act, (b) to provide us with the appropriate written representations regarding the Schedule of Expenditures of Federal and State Awards, (c) to include our report on the Schedule of Expenditures of Federal and State Awards in any document that contains the Schedule of Expenditures of Federal and State Awards and that indicates that we have reported on such schedule, and (d) to present the Schedule of Expenditures of Federal and State Awards with the audited financial statements, or if the schedule will not be presented with the audited financial statements, to make the audited basic financial statements readily available to the intended users of the Schedule of Expenditures of Federal and State Awards no later than the date of issuance by you of the schedule and our report thereon.

As part of our audit process, we will request from management and, when appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit.

We understand that your employees will prepare all confirmations we request and will locate any documents or invoices selected by us for testing.

If you intend to publish or otherwise reproduce the basic financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.



## **Nonattest Services**

We will perform the following nonattest services:

- Draft of financial statements and footnotes
- GASB 34 conversion entries
- Preparation of auditor portions of Data Collection Form (if applicable)
- Preparation of AFIR
- Preparation of LGC's data input worksheet
- Capital asset & depreciation listing maintenance
- Clerical services

We will not assume management responsibilities on behalf of the Town of Holden Beach. However, we will provide advice and recommendations to assist management of the Town of Holden Beach in performing its responsibilities.

The Town of Holden Beach's management is responsible for (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed; and (e) designing, implementing, and maintaining the system of internal control, including the process used to monitor the system of internal control.

Our responsibilities and limitations of the nonattest services are as follows:

- We will perform the services in accordance with applicable professional standards.
- The nonattest services are limited to the services previously outlined. Our firm, in its sole professional judgment, reserves the right to refuse to do any procedure or take any action that could be construed as making management decisions or assuming management responsibilities, including determining account coding and approving journal entries.

## **Other Matters**

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

Regarding the electronic dissemination of audited financial statements, including financial statements published electronically on your Internet website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Professional standards prohibit us from being the sole host and/or the sole storage for your financial and non-financial data. As such, it is your responsibility to maintain your original data and records and we cannot be responsible to maintain such original information. By signing this engagement letter, you affirm that you have all the data and records required to make your books and records complete.

During the course of the engagement, a portal will be in place for information to be shared, but not stored. Our policy is to terminate access to this portal after one year. The Town is responsible for data backup for business continuity and disaster recovery, and our workpaper documentation is not to be used for these purposes.

**Provisions of Engagement Administration and Fees**

Marcie Spivey is the engagement partner for the audit services specified in this letter. Her responsibilities include supervising Martin Starnes & Associates, CPAs, P.A.'s services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report. To ensure that our independence is not impaired under the AICPA Code of Professional Conduct, you agree to inform the engagement partner before entering into any substantive employment discussions with any of our personnel.

Our fees for these services are as follows:

Audit Fee	\$ 35,125
Financial Statement Drafting	3,900
Single Audit Fees (up to 2 programs)	<u>3,750</u>
	<u>\$ 42,775</u>
<b>Additional Fees:</b>	
Charge per major program in excess of 2	<u>\$ 3,750</u>

Please note that the fees above include up to 2 major programs, as indicated. The "total amount not to exceed" listed on the audit contract includes up to 3 major programs. If the total number of major programs exceeds 3 and the "total amount not to exceed" needs to be increased, we will prepare an amended contract to include the fees necessary based on the per program amount listed as additional fees above.

Our invoices for these fees will be rendered in four installments as work progresses and are payable upon presentation. In accordance with our firm policies, work may be suspended if your account becomes overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for non-payment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our reports. 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.

We will notify you immediately of any circumstances we encounter that could significantly affect this initial fee estimate. Whenever possible, we will attempt to use the Town of Holden Beach's personnel to assist in the preparation of schedules and analyses of accounts. This effort could substantially reduce our time requirements and facilitate the timely conclusion of the audit. Further, we will be available during the year to consult with you on financial management and accounting matters of a routine nature.

We want our clients to receive the maximum value for our professional services and to perceive that our fees are reasonable and fair. In working to provide you with such value, we find there are certain circumstances that can cause us to perform work in excess of that contemplated in our fee estimate.

Following are some of the more common reasons for potential supplemental billings:

*Changing Laws and Regulations*

There are many governmental and rule-making boards that regularly add or change their requirements. Although we attempt to plan our work to anticipate the requirements that will affect our engagement, there are times when this is not possible. We will discuss these situations with you at the earliest possible time in order to make the necessary adjustments and amendments in our engagement.

### *Incorrect Accounting Methods or Errors in Client Records*

We base our fee estimates on the expectation that client accounting records are in order so that our work can be completed using our standard testing and accounting procedures. However, should we find numerous errors, incomplete records, or the application of incorrect accounting methods, we will have to perform additional work to make the corrections and reflect those changes in the financial statements.

### *Failure to Prepare for the Engagement*

In an effort to minimize your fees, we assign you the responsibility for the preparation of schedules and documents needed for the engagement. We also discuss matters such as availability of your key personnel, deadlines, and work space. If your personnel are unable, for whatever reasons, to provide these items as previously agreed upon, it might substantially increase the work we must do to complete the engagement within the scheduled time.

### *Starting and Stopping Our Work*

If we must withdraw our staff because of the condition of the client's records, or the failure to provide agreed upon items within the established timeline for the engagement, we will not be able to perform our work in a timely, efficient manner, as established by our engagement plan. This will result in additional fees, as we must reschedule our personnel and incur additional start-up costs.

Our fees are 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. Our fees for such services range from \$85-\$400 per hour.

*Government Auditing Standards* require that we document an assessment of the skills, knowledge, and experience of management, should we participate in any form of preparation of the basic financial statements and related schedules or disclosures as these actions are deemed a non-audit service.

During the course of the audit, we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.

You agree to inform us of facts that may affect the financial statements of which you may become aware during the period from the date of the auditor's report to the date the financial statements are issued. We agree to retain our audit documentation or work papers for a period of at least five years from the date of our report.

You agree to inform us of facts that may affect the basic financial statements of which you may become aware during the period from the date of the auditor's report to the date the financial statements are issued.

At the conclusion of our audit engagement, we will communicate to management and those charged with governance the following significant findings from the audit:

- Our view about the qualitative aspects of the entity's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;

- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management’s consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

The audit documentation for this engagement is the property of Martin Starnes & Associates, CPAs, P.A. and constitutes confidential information. However, we may be requested to make certain audit documentation available to the Local Government Commission, Office of the State Auditor, federal or state agencies and the U.S. Government Accountability Office pursuant to authority given to it by law or regulation, or to peer reviewers. If requested, access to such audit documentation will be provided under the supervision of Martin Starnes & Associates, CPAs, P.A.’s personnel. Furthermore, upon request, we may provide copies of selected audit documentation to these agencies and regulators. The regulators and agencies may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies.

In accordance with the requirements of *Government Auditing Standards*, we have attached a copy of our latest external peer review report of our firm to the Contract to Audit Accounts for your consideration and files.

Please sign and return a copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements and compliance over major federal and state award programs, including our respective responsibilities.

We appreciate the opportunity to be your financial statement auditors and look forward to working with you and your staff.

Respectfully,

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

Martin Starnes & Associates, CPAs, P.A.  
Hickory, North Carolina

RESPONSE:

This letter correctly sets forth our understanding.

Acknowledged and agreed on behalf of the Town of Holden Beach by:

Signature: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**MARTIN ♦ STARNES**  
**& ASSOCIATES, CPAs, P.A.**

*"A Professional Association of Certified Public Accountants and Management Consultants"*

January 10, 2023

Town of Holden Beach  
Attn: David Hewett, Town Manager  
110 Rothschild Street  
Holden Beach, NC 28462

Dear David:

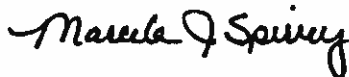
Thank you for the opportunity to propose on the audit of the financial statements of the Town of Holden Beach. We appreciate the confidence that you have shown in our firm by asking us to bid on the audit.

Our proposal is built on proven, success-based methodologies for providing a quality audit. We value the efforts and expertise put into the audit by your staff and ours.

Enclosed is a detailed proposal regarding the audit and a brief history of our firm. Also, please be sure to view our enclosed "MSA Profile" for additional information regarding our firm.

Please call me at (828) 327-2727, ext. 308, or email me at [mspivey@msa.cpa](mailto:mspivey@msa.cpa) if you need additional information.

Sincerely,



Marcela J. Spivey, CPA  
Audit Partner

Enclosures

**TOWN OF HOLDEN BEACH  
NORTH CAROLINA**

**SECTION II  
COST ESTIMATE  
2023 – 2025**

**MARTIN  STARNES**  

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**& ASSOCIATES, CPAs, P.A.**

*"A Professional Association of Certified Public Accountants and Management Consultants"*



# *Town of Holden Beach, NC*

## *Section II - Table of Contents*

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	<u><i>Page</i></u>
<i>REQUIREMENT 1: AUDIT PROGRAMS</i>	<i>1</i>
<i>REQUIREMENT 2: STATISTICAL SAMPLING</i>	<i>1</i>
<i>REQUIREMENT 3: COMPUTER AUDIT SPECIALISTS</i>	<i>2</i>
<i>REQUIREMENT 4: AUDIT TEAM ORGANIZATION</i>	<i>2</i>
<i>REQUIREMENT 5: MANAGEMENT LETTER</i>	<i>2</i>
<i>REQUIREMENT 6: ASSISTANCE EXPECTED FROM TOWN STAFF</i>	<i>2</i>
<i>REQUIREMENT 7: TENTATIVE AUDIT SCHEDULE</i>	<i>3</i>
<i>TOWN OF HOLDEN BEACH SUMMARY OF COSTS SHEET</i>	<i>4</i>
<i>REQUIREMENTS 8, 9, 10 &amp; 12: PROFESSIONAL FEES – AUDITING SERVICES (CONTINUED)</i>	<i>5</i>
<i>REQUIREMENT 11: ADDITIONAL INFORMATION: WE HAVE A STORY TO TELL!</i>	<i>6-7</i>
<i>FINAL CONSIDERATIONS</i>	<i>8</i>



# Town of Holden Beach, NC

## Section II – Cost Estimate

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### ❖ **REQUIREMENT 1 – AUDIT PROGRAMS**

We use an intuitive audit software, developed by CCH, a Wolters Kluwer subsidiary, an industry leader in accounting and tax software. The program is called “*Knowledge Coach*” and is integrated into CCH’s “*Knowledge Based Audit Approach*”. Knowledge Coach is the only integrated audit planning, risk assessment, and audit program workflow and management system that has been approved by the AICPA’s National Peer Review Committee. Please see the following excerpt from a press release about Knowledge Coach:

*“Developed from the ground up by auditors, for auditors, ProSystem fx Knowledge Coach combines the industry-specific content and guidance of ProSystem fx Knowledge Tools with a dynamic audit workflow engine that dramatically streamlines the audit planning process and helps users efficiently manage an audit from beginning to end.*

*“Peer review is an important milestone for Knowledge Coach, because it confirms that not only is our content compliant with AICPA risk-based audit standards, but our processes for developing, presenting and utilizing this content in the Knowledge Coach application maintains and enhances this compliance,” said CCH Product Manager Mike Ritchie. “Knowledge Coach is the first product of its kind – making the same kind of breakthrough in the audit realm that the first computer-based programs did for tax. As a result, we wanted to have it subjected to peer review, and we’re very gratified that it has been validated through that process,” Ritchie said.*

After we have completed the planning, risk assessment, and internal control portion of the engagement, Knowledge Coach will intuitively guide the substantive portion of the audit through suggested audit steps. This process will eliminate unnecessary procedures due to SALY (same as last year) and highlight audit areas that, based on our planning and risk assessment, require and deserve the brunt of our audit effort. Our approach is a combination of a balance sheet approach, substantive analytic review, and detail testing of specific general ledger accounts. Our substantive analytic review procedures are designed specifically for the Town of Holden Beach and are approved by the senior management of the engagement during the planning stages of the audit. Every procedure we perform will have a specific purpose and audit objective in mind.

### ❖ **REQUIREMENT 2 – STATISTICAL SAMPLING**

We do not use statistical sampling in our financial statement audit approach. Our audit approach uses haphazard or random sampling in order to test the contents of the audit area rather than the attributes of the audit area. We obtain our audit assurance from a combination of detail testing (sampling) and analytic review. Detail testing (sampling) is the process of testing 100% of all individually significant items based on materiality and risk assessment and then evaluate the remaining population to determine whether the sample is sufficient or additional transactions need to be tested to fulfill the sample requirement based on our risk assessment. Analytic review is the process of comparing our expectations of a particular audit area to the actual results and analyzing the differences. We believe this approach is more effective in detecting material errors and is less time consuming on our staff and the governmental unit’s staff.





**Town of Holden Beach, NC**  
**Section II – Cost Estimate**

❖ **REQUIREMENT 3 – COMPUTER AUDIT SPECIALISTS**

Our Technology Manager is available to either conduct the Town’s MIS controls assessment or review the assessment performed by our Senior Accountant. Our audit process includes documenting our understanding of the internal control systems, including the computer system’s controls, assessing risk, and identifying potential security issues that would have a direct and material impact on the financial statements taken as a whole. Our staff is qualified to analyze the computer controls and make any necessary recommendations.

❖ **REQUIREMENT 4 – AUDIT TEAM ORGANIZATION**

<u>Staff Assigned</u>	<u>Percentage of Time</u>
Senior Management Team (2)	35%
Senior Accountant (1)	35%
Staff Accountant (1)	30%

The Manager will supervise the on-site fieldwork with assistance from the Senior Accountant.

❖ **REQUIREMENT 5 – MANAGEMENT LETTER**

Audit standards have significantly changed the content of the Yellow Book and the Single Audit opinion letters. Consequently, a management letter would only report minor internal control weaknesses, suggestions for improving operational procedures, cost-saving ideas, and any other suggestions for improving the overall operation of the Town. There will be no surprises! If we have detected an issue during our audit procedures, management will be informed immediately. Any issues disclosed in the management letter or the compliance letters will have been fully discussed with management during the engagement.

❖ **REQUIREMENT 6 – ASSISTANCE EXPECTED FROM TOWN STAFF**

To expedite the audit, we need the final trial balance in electronic format (preferably Excel) one week before final fieldwork is scheduled to begin. This allows us to import your trial balance into our audit software and begin identifying our risk areas before fieldwork actually begins. We may also download your interim trial balance for risk assessment and planning purposes as of 12/31, 3/31, and 6/30 (unadjusted).

We prefer all of the client assistance outlined in the RFP to be provided in electronic format wherever possible. The Town can expedite the audit process by minimizing immaterial post-final AJE’s and providing all items on the “Prepared by Client” (PBC) list before fieldwork begins. PBC list management will be handled via Suralink, an audit request list technology and electronic document management system.



# *Town of Holden Beach, NC*

## *Section II – Cost Estimate*

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### **❖ REQUIREMENT 7 – TENTATIVE AUDIT SCHEDULE**

*Note: MSA is committed to working with our clients through the COVID-19 pandemic. Due to any existing COVID restrictions, we have the ability to perform audit procedures and audit presentations remotely to the extent required by the Town, utilizing secure electronic sharing of files and virtual meetings through Zoom, Microsoft Teams or other online platforms. Such requirements can be discussed during the planning stage of the audit.*

#### ***Audit Planning***

We work on our government engagements year-round. We begin by downloading an interim trial balance in January or February of each year. We use this data to assess audit risk, plan our interim procedures, perform preliminary analytic review, and gather data about new projects, funds, and departments. We also stay current with the Town by reading the minutes of the Town Council's meetings each month. We will meet with the appropriate members of the Finance Department to plan the engagement each year. At this meeting, timetables for our responsibilities and the Town's responsibilities will be agreed upon.

#### ***Interim and Final Fieldwork***

Generally, we will perform interim fieldwork at a mutually agreed-upon week from March–June of each year. During interim, we will update our understanding of internal controls, test compliance (Federal and State programs, as required), and audit transactions in capital project funds, special revenue funds, and capital outlay, as applicable. Our team will be on site for up to one week. We are planned and prepared when we arrive; therefore, once we come on site, we will stay until our objectives are completed. If we have internal control or compliance findings, we will discuss those with management at the completion of our interim procedures.

In a typical year, we will perform final fieldwork in July-August. Final fieldwork will last approximately one week on site and several weeks in the office. Before we begin the on-site portion of the fieldwork, we will have imported final trial balances, planned our procedures, and coordinated with the finance staff any data needed for our procedures. Our staff will hit the ground running and complete our procedures timely, efficiently, and with minimal interruption of your staff. We will provide any audit adjustments, compliance findings, and internal control findings at the completion of final fieldwork.

Our typical timeline for the Town will be as follows:

- March-April – Download interim trial balance and perform preliminary analytic procedures. This procedure allows us to keep informed of changes at the Town before the audit commences.
- March-April – Planning meeting with the Finance Director. At the planning meeting, we will mutually agree on the fieldwork timetable, client prepared schedules, etc. The purpose of this meeting is to get your staff and our staff on the same page.
- Mutually agreed-upon time between March and June – Interim fieldwork (test internal controls and grant compliance, as required)
- July-August – Import final trial balance; perform analytical procedures; perform compliance testing; perform final risk assessment; perform final fieldwork
- October – Submission of report to Local Government Commission
- Mutually agreed-upon time between October and December – Presentation to the Town Council

**MARTIN ♦ STARNES**  
**& ASSOCIATES, CPAs, P.A.**

**TOWN OF HOLDEN BEACH  
SUMMARY OF COSTS SHEET**

**AUDIT FIRM NAME:**

Martin Starnes & Associates, CPAs, P.A.

**FY 2022 - 2023**

1. Base Audit	<u>\$ 31,925</u>
2. Financial Statement Preparation (includes cost of printing 20 bound copies)	<u>\$ 3,550</u>
3. AFIR	<u>\$ 1,500</u>
4. Other (use additional pages to explain, if necessary)	<u>\$ see below*</u>
Total	<u>\$ 36,975*</u>

**FY 2023 - 2024**

5. Base Audit	<u>\$ 35,125</u>
6. Financial Statement Preparation (includes cost of printing 20 bound copies)	<u>\$ 3,900</u>
7. AFIR	<u>\$ 1,650</u>
8. Other (use additional pages to explain, if necessary)	<u>\$ see below*</u>
Total	<u>\$ 40,675*</u>

**FY 2024 - 2025**

9. Base Audit	<u>\$ 38,630</u>
10. Financial Statement Preparation (includes cost of printing 20 bound copies)	<u>\$ 4,300</u>
11. AFIR	<u>\$ 1,815</u>
12. Other (use additional pages to explain, if necessary)	<u>\$ see below*</u>
Total	<u>\$ 44,745*</u>

\*Totals listed above exclude single audit fees. If applicable, single audit fees will be added annually at \$3,750 per year for up to 2 major programs. Major programs in excess of 2 will be billed at \$3,750 each.



## *Town of Holden Beach, NC*

### *Section II – Cost Estimate*

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#### ❖ *REQUIREMENTS 8, 9, 10 & 12 – PROFESSIONAL FEES – AUDITING SERVICES (CONTINUED)*

Please refer to the Summary of Costs Sheet on the previous page. Additional cost information follows below.

Audit contracts must be approved annually by the Local Government Commission. For your planning purposes, our estimated fees to provide our services to you in the future are shown in the Summary of Costs sheet on the previous page. These are estimated fees only. Governmental and rule-making boards may add or change their requirements related to our services which may change these estimates. The actual fee agreement will be set forth in the annual contract signed for the relevant year.

#### *Basis/Methodology of Cost Estimate:*

At Martin Starnes & Associates:

- Estimated fees presented are generally on a “fixed-fee” basis. If a situation occurs that would cause additional fees, we will discuss the changes with the Finance Director before the additional fees are incurred by the Town. We will specify the services to be provided and an estimate of the related fees. We do not bill for travel costs related to the audit engagement. If we are engaged to provide services outside of the audit engagement, we will negotiate the fees for those services, and they may include reimbursing our firm for travel related expenses. Our hourly rates for such services range from \$80-\$375.
- The fees proposed herein include technical assistance to the Town’s staff throughout the year. We are available to serve our government clients twelve months a year. Any assistance that would require supplemental fees will be negotiated in advance. Summary: No surprise fees!
- Our fees also include the planning meeting; submission of the report to the LGC; printing up to 20 copies of the financial statements and other applicable documents; preparation of the Data Collection Form (as required); and a presentation to the Town Council.

#### *Basis for Determining Cost Estimate After First Year:*

Our fee increases are determined on an annual basis. The volatility of the economy and many governmental and rule-making boards regularly adding or changing their requirements related to the services we provide to you also affect our average fee increases.



# *Town of Holden Beach, NC*

## *Section II – Cost Estimate*

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### ❖ *REQUIREMENT 11 – ADDITIONAL INFORMATION*

#### **We Have A Story To Tell!**

We have provided the Town of Holden Beach with all of the information requested in the RFP. There is information and perspective that we would like to share about our firm that is difficult to glean from the basic questions in an RFP. Please indulge us as we explain what makes us different from other qualified firms.

#### ***History***

Our firm's government client list has grown from one small town in Alexander County to one of the largest governmental audit practices in the state with a simple formula:

$$\text{Quality} + \text{Service} + \text{Value} = \text{Success}$$

We have grown one client at a time with a focus on client retention. Since 1992, we have lost very few clients during the re-proposal process. We are convinced that *Quality + Service + Value = Success* works!

#### ***Quality***

Approximately 85% of our audit practice is dedicated to serving governments in North Carolina. We are confident no other firm in North Carolina can make that claim. Our audit staff does not have a 12/31 busy season. Therefore, they are focused on serving our government clients and only have one busy season. This structure has minimized our turnover and increased the quality of our audit product through continuity on the engagement.

We have three Partners who have been reviewers for the GFOA Certificate of Excellence Program. We serve on the NCACPA's Government Auditing and Accounting Task Force. We have been members of the AICPA's Government Audit Quality Center since its inception. We are 100% committed to providing the absolute best quality government audit available in North Carolina. Our audit practice has been subjected to quality reviews since 1992 without a blemish. *In fact, during a recent review, the Peer Reviewer asked us to provide his firm with training.*

#### ***Service***

"If you fail to plan, you plan to fail". Each of our engagements start with a plan that is mutually agreed upon by our staff and the client's staff. This includes dates of fieldwork, dates client prepared schedules are due to us, and dates documents are due from us to the client.

We have a state-of-the-art technology system that successfully eliminates geography as a constraint on service. Your staff will never notice that our firm is in Hickory, and you are in Holden Beach. Our most recent enhancement to service is our "Suralink" PBC request list technology and electronic document management system. Suralink uses dynamic request lists that place all client requests in one place and is updated in real time by everyone working on your audit engagement. Requests are quickly and easily managed and organized using this technology. Our clients save time fulfilling audit requests while streamlining processes using Suralink.

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**& ASSOCIATES, CPAs, P.A.**



## *Town of Holden Beach, NC*

### *Section II – Cost Estimate*

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#### **Value**

Fees do not always reflect value. Our business model from the very beginning was to provide quality service with a highly trained staff. Our model also includes maintaining state-of-the-art hardware and software in our audit practice. An example of this commitment was the conversion to *Knowledge Coach*, as discussed herein. We are focused on efficiency and effectiveness in every step of the audit process. The end result - we offer much more to the Town than an audit. We add VALUE to the financial reporting process.

Our firm is “lean” in regard to overhead. Each member of management has client responsibilities as well as management responsibilities. This results in lower standard hourly billing rates. Finally, integrity is the ultimate source of our value-based firm.

#### **How Do We Complete the Volume of Governmental Audits On Time?**

- We plan our engagements starting January 2<sup>nd</sup> of each year so that we can efficiently perform the engagement and minimize the final fieldwork time required.
- We use state-of-the-art technology and use it to the fullest extent.
- We hire and retain the best staff.
- We spend more hours auditing your unit from January–July than our competition. Therefore, we are rarely surprised by what we find at final fieldwork from August–October.
- Our audit staff is leveraged so that we have a balanced ratio of senior leadership, senior accountants, and staff accountants. Each senior accountant manages approximately 10 engagements and has the entire staff accountant pool, as well as our firm leadership, at his or her disposal. Any time an engagement incurs problems, it is handed off “up the ladder” to a manager, rather than drowning the senior accountant.
- Finally, we view our audit practice with a “team” approach. When all of our engagements are completed, then *WE* are finished. “All hands on deck” takes on a whole new meaning at Martin Starnes & Associates.

We have grown our audit practice from the ground up, one client at a time, and one staff member at a time. Therefore, our growth has been planned for and managed. Every engagement has a staffing plan that anticipates when the staff will be ready to supervise the engagement, when the senior will be ready for a promotion to audit manager, and when the audit manager will be ready for more complex management requirements. This allows for continuity on the job, continuity with your staff, and maximum efficiency in our procedures. How do we manage turnover? We have made staff retention a number one priority of the firm.



# *Town of Holden Beach, NC*

## *Section II – Cost Estimate*

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### **FINAL CONSIDERATIONS**

#### **Quote from J. Michael Barham, NC Board of CPA Examiners at the 2009 Local Government Update**

*“If you want to improve the quality of Yellow Book and OMB audits, select your auditors based on the following criteria: experience, references, contact the firm’s current audit clients, evaluate professional qualifications, evaluate the firm’s commitment to CPE, the firm’s peer review results, and contact the LGC about the firm’s quality and timeliness; but most importantly, do not let the price be the driving force.”*

#### **Excerpt from article: Better Understanding the Financial Statement Audit**

**By Stephen J. Gauthier - Author of Governmental Accounting, Auditing and Financial Reporting (“Blue Book”) and Director of the Technical Services Center of the Government Finance Officers Association of the United States and Canada**

*... Mandatory auditor rotation may pose special risks in the public sector (do not force yourself into a bad decision). Many people believe that periodically changing audit firms offers real advantages such as a fresh outlook and greater independence from management ...*

*... The potential benefits of auditor rotation depend on the presence of a sufficient number of qualified firms being interested in performing the audit. . . Accordingly, a policy of mandatory auditor rotation, when applied to state and local governments, could force a government into the position of hiring a less than fully qualified replacement for its current independent auditor.*

*... Furthermore, many of the potential benefits of auditor rotation could be achieved by rotating the personnel assigned to the engagement within the current auditing firm.*

#### **Excerpt from “Suggested Good Practices” Document by the AICPA**

*Audit firm rotation is an idea that has been around for some time but has consistently failed to gain support from the SEC, GAO, private organizations, academics, and others as constituting sound public policy. The reasons for the lack of acceptance of the idea are easily identified:*

- *The costs of audit firm rotation far exceed the potential benefits.*
- *The linkage between auditor tenure and auditor competence is real; studies have shown that audit failures are three times more likely in the first two years of an audit engagement.*