

J. B. WATSON & CO., P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

120 SOUTH RUTHERFORD STREET

P.O. BOX 341

WADESBORO, N.C. 28170

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April 28, 2016

Jim Wojtowicz, Finance Director
Town of Indian Trail
PO Box 2430
Indian Trail, NC 28079

Dear Mr. Wojtowicz:

We are pleased to submit this second section of our proposal to serve as the independent certified public accountants of Town of Indian Trail for the years ending June 30, 2016, 2017, and 2018.

Our responses requested in the Second Section of your Request for Proposal are attached.

If additional information is needed, please feel free to contact me at (704) 694-5174 or dbennett@jbandco.com.

Respectfully submitted,



Deneal H. Bennett, CPA
Member

*Request for Proposal Requirements
Second Section*

1) Type of Audit Program

We use the Practitioners Publishing Company (PPC) Guide to Audits of Local Governments as our audit manuals. Tailor-made audit programs will be designed, using PPC as guidance, for all areas of the audit.

2) Statistical Sampling

The firm's audit approach is to use statistical sampling whenever appropriate. We will use statistical sampling for transaction testing of payroll, cash disbursements, property taxes, utility billing, and grant compliance tests.

3) Use of Computer Audit Specialists

We will obtain an understanding of your EDP system and test transactions and documentation as considered necessary. If the use of a specialist is deemed appropriate, we will utilize computer specialists to assist us in further evaluating your EDP system.

4) Audit Team Organization

The audit team organization is on pages 5-10 in our response to the RFP – First Section. The audit team will work full time during the periods scheduled for interim and year end fieldwork.

5) Management Letter Information

Our management letters will conform to the requirements of Clarified Statements on Auditing Standards AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*, and the requirements of the Single Audit Act and GAO's *Government Auditing Standards*. The actual comments will be formulated during the course of the audit and will be discussed with the Finance Director and/or other appropriate personnel prior to issuing the report.

6) Government Staff Assistance

The level of assistance from Town of Indian Trail staff as outlined in the RFP will be sufficient. In addition, we will provide the Town with a letter before we begin fieldwork detailing all schedules needed to complete the audit in a timely fashion. We will work with the Town staff to ensure the various schedules are prepared in an efficient manner.



POTTER & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

System Review Report

To the Partners of J. B. Watson & Co., PLLC and the
Peer Review Committee of the NCACPA

We have reviewed the system of quality control for the accounting and auditing practice of J. B. Watson & Co., PLLC (the firm) in effect for the year ended December 31, 2012. 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. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. 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. 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. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*.

In our opinion, the system of quality control for the accounting and auditing practice of J. B. Watson & Co., PLLC in effect for the year ended December 31, 2012, 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*. J. B. Watson & Co., PLLC has received a peer review rating of *pass*.

Potter & Company, P.A.

May 30, 2013

**Town of Indian Trail
Proposal**

**Request for Proposal Requirements
Second Section - Continued**

7) Tentative Audit Schedule

The tentative schedule for the audit is as follows. The actual dates will be finalized in the spring of each year.

Planning/Interim	Late May or early June
Year end fieldwork	August
Draft reports to Board	Early to Mid October
Final reports to Board and LGC	October 31 or December 1, if necessary

8) Internal Audit Staff – N/A

9) Cost and Staff Hours

We propose a maximum total fee for the *audit* of the basic financial statements of Town of Indian Trail, *excluding* non-attest services and single audit work (if applicable), as follows:

<u>Year ending:</u>	
June 30, 2016	\$20,500
June 30, 2017 (<i>estimate</i>)	\$21,500
June 30, 2018 (<i>estimate</i>)	\$22,500

The above estimates are based upon the following hours:

	<u>Hours</u>	<u>Rate</u>	<u>Total</u>
Financial audit - interim/yr end	240	\$50-75	\$15,500
Financial statements and review	40	100	5,000
	<u>280</u>		<u>\$20,500</u>

Single audit procedures (if applicable) will be provided at \$125/hour. Year-end bookkeeping assistance (non-attest services) will be provided if requested by your staff and/or needed for the completion of the audit. This includes modified accrual to accrual basis adjustments and reconciliations and assistance with the grant reconciliations and grant schedule. These services will be provided at \$125/hour. Any additional services outside the scope of the audit, such as assistance with the pension disclosures and preparation of the Annual Financial Information Report (AFIR) will also be provided at our standard hourly bookkeeping rate of \$125/hour.

The above fees include office and other supply costs and any miscellaneous costs. Estimated travel costs are included in the above maximum total fee; they will not be billed separately.

These fees are based upon the scope of the work outlined in your RFP and the assistance to be provided by your staff. Should the scope or the assistance change, we will negotiate the amount of the audit contract for the year(s) affected.

SUMMARY OF AUDIT COSTS SHEET

1. Base Audit Includes Personnel costs, travel, and on-site work	\$ <u>15,500.00</u>
2. Financial Statement Preparation	\$ <u>5,000.00</u>
3. Extra Audit Service – Single Audit Procedures <u>\$125 per hour</u>	\$ <u>Variable</u>
4. Other (explain) <u>Non-attest services - \$125 per hour</u>	\$ <u>Variable</u>
5. Other (explain) _____	\$ _____
TOTAL FIXED FEE	\$ <u>20,500.00</u>

Potter & Company, PLLC – Monroe, NC

Staff in firm – unknown

PERSONNEL/YEARS OF EXPERIENCE

Partner in Charge:	John Kapelar, CPA	21 years
Manager(s) in Charge:	Sheila B. Mulkey, CPA	29 years
	Daniel O. Morrow, CPA	17 years
Other Staff: 1-2		

CURRENT GOVERNMENTAL CLIENTS/LENGTH OF TIME

Includes (they currently have 10 municipalities/ governmental entities they audit):

City of Concord	8 years
Town of Waxhaw	15+ years
Water and Sewer Authority of Cabarrus County	unknown

LAST PEER REVIEW/OPINION

May 2013 Pass

PROFESSIONAL MEMBERSHIPS

Governmental Audit Quality Center
 NCACPA
 AICPA

THINGS TO CONSIDER

Partner in Charge will be onsite 15-25% of the time. Manager in Charge will be on site 75-90% of the time. This is the only firm that has performed Peer reviews on other firms in list. They had performed two of the six. The Current Assistant Director of Finance for Indian Trail was an employee of this firm from 2006 -2009. She was a member of the tax department, and had no dealings with the Governmental Audits. Independence would not be compromised. This firms currently provides the audit for Indian Trail ABC Board.



POTTER & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

INDIAN TRAIL, NORTH CAROLINA



Proposal To

Provide Audit Services

For The Years Ending

June 30, 2016, 2017 and 2018

SECTION I



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POTTER & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

April 28, 2016

Mr. Jim Wojtowicz
Finance Director
Town of Indian Trail
Indian Trail, North Carolina

We are pleased to submit our response to your request for proposal to provide auditing and accounting services to the **Town of Indian Trail, North Carolina**. It is the purpose of this proposal to demonstrate that Potter & Company will make the necessary commitment to provide the services you have requested both successfully and timely.

We will perform an independent audit of the **Town of Indian Trail's** financial statements in accordance with generally accepted auditing standards and *Government Auditing Standards*. Our audit will also include consideration of internal controls necessary to plan our audit procedures and tests of compliance requirements for federal and state grants as required by the Single Audit Act of 1984 as amended in 1996, OMB Circular A-133, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. We will also be available throughout the year to provide assistance as needed.

Our proposal has been developed to present our qualifications and our approach to providing services to the **Town of Indian Trail**.

In selecting an accounting firm, we believe it is important to select the firm which will provide the very highest level of service. The **Town of Indian Trail** will be a highly valued client to our firm and we will utilize our firm's resources as necessary to assure prompt and professional service. Our present staffing permits us to allocate the time and resources necessary to provide services to the **Town of Indian Trail**.

Potter & Company is a local CPA firm organized over fifty years ago. We currently have fully staffed offices in Monroe, Concord, Mooresville, and Charlotte, North Carolina. By providing quality professional services, we have grown to be one of the largest, locally based, certified public accounting firms in our area. Governmental audits and consulting services are areas in which our firm has current knowledge and expertise. We dedicate a large portion of our resources to maintaining and improving our knowledge to provide solutions for your accounting needs. Potter & Company is an equal opportunity employer.

Jim Wojtowicz
Town of Indian Trail
Proposal to Provide Audit Services
Page Two

Our qualifications to perform accounting and auditing services for the **Town of Indian Trail** include the following:

1. Our firm has considerable governmental experience as more fully described in the attached proposal.
2. The United States General Accounting Office requires peer reviews for accountants conducting governmental audits. Our firm has consistently received the highest quality rating possible. A copy of our most recent peer review is included in the appendices of this proposal.
3. Potter & Company is a member of the BDO Alliance. The BDO Alliance has numerous member firms across the United States, many of which serve local governments. Our membership gives us access to extensive resources for consultation on technical and regulatory matters.
4. Potter & Company has been a member of the AICPA Governmental Audit Quality Center (GAQC) since 2006. Benefits to members include updates on issues, developments in governmental auditing, news alerts, information on Center initiatives and guidance to helpful resources.

We will work diligently to provide timely, professional services to the **Town of Indian Trail**. Should you need additional information please contact John Kapelar at (704) 283-8189.

Respectfully submitted,

POTTER & COMPANY, P.A.



John W. Kapelar, CPA

**SECTION I
RELEVANT EXPERIENCE AND
OUR TEAM APPROACH TO SERVING
THE TOWN OF INDIAN TRAIL**

1. STAFFING THE ENGAGEMENT

Overall responsibility for the work performed for the **Town of Indian Trail** will rest with John Kapelar, audit partner of Potter & Company. John will be directly involved in all aspects of your audit and accounting services. Sheila Mulkey will serve as the audit manager on the engagement. Dan Morrow, Audit Manager, will oversee the portion of the audit related to federal and state grants. A team of professional accountants will be assigned, and the work will be carried out under the direct supervision of the audit partner and managers. We estimate that one to two staff accountants will be assigned to the audit, in addition to the audit partner and audit managers. We believe that the experience and talent of our professional staff are adequate to satisfactorily staff the engagement. *Our firm policy is to assign staff members who have previous experience on the engagement each year.*

2. RELEVANT EXPERIENCE

Our firm has considerable experience in governmental accounting. Our experience allows us to understand your needs and provide answers to your unique problems. As indicated by our governmental client list and our involvement with governmental education, we are committed to excellence in service to our governmental clients.

Client	Years of Service	Services
City of Concord, North Carolina (*)	8	<ul style="list-style-type: none"> ▪ Assistance with GASB 34, GASB 63 and GASB 65 implementation. ▪ Financial and compliance audits. ▪ Assistance with Certificate of Achievement for Excellence in Financial Reporting.
Union County	8	<ul style="list-style-type: none"> ▪ Assistance with GASB 34, GASB 63 and GASB 65 implementation. ▪ Financial and compliance audits. ▪ Assistance with Certificate of Achievement for Excellence in Financial Reporting.
Town of Waxhaw (*)	15 +	<ul style="list-style-type: none"> ▪ Assistance with GASB 34, GASB 63 and GASB 65 implementation. ▪ Financial and compliance audits.

**Town of Indian Trail
Services**

Proposal to Provide Audit

Client	Years of Service	Services
City of Monroe	22	<ul style="list-style-type: none"> ▪ Assistance with GASB 34, GASB 63 and GASB 65 implementation. ▪ Financial and compliance audits. ▪ Assistance with Certificate of Achievement for Excellence in Financial Reporting.

(*) Potter & Company was auditor for the most recent fiscal year end.

In addition to these clients, our Monroe office also audits The Water and Sewer Authority of Cabarrus County and The Cabarrus Health Alliance. Our Concord office continues to provide nonaudit services to Rowan County annually, including assistance with preparation of schedules and reconciliations for audit purposes and financial statement presentation.

3. ADDITIONAL SERVICES TO GOVERNMENTAL CLIENTS

Our firm has relevant experience in providing services to our governmental clients outside the scope of our audit work. We will be available to assist your organization with any special projects or consulting services that may arise. Special projects and consulting services will be billed at our hourly rates with prices agreed to before services are rendered. Potter & Company, P.A. will ensure that both parties have a clear understanding of the work that will be performed and the related fees prior to beginning work on special projects. A list of selected services provided by our Monroe office and their dates are provided below.

Client	Year of Service	Services
City of Concord	<p>June 2008</p> <p>June 2010</p> <p>June 2008 – June 2015</p>	<ul style="list-style-type: none"> ▪ Correspondence and research regarding taxation of personal use of City owned property and review of current policy. ▪ Review of utility billings to resolve a dispute between the City and a customer. ▪ Preparation of 990 for blended component unit. ▪ Preparation of REAC reports
Rowan County	<p>2011, 2013, 2014, 2015</p> <p>January 2012</p>	<ul style="list-style-type: none"> ▪ Assistance with CAFR preparation including agreeing amounts in CAFR to client prepared schedules and assistance with note disclosures. ▪ Reconciliation of selected general ledger accounts. ▪ Assistance with escheat process. ▪ Agreed upon procedures engagement related to capital project funds, self-insurance and investments.

**Town of Indian Trail
Services**

Proposal to Provide Audit

Client	Year of Service	Services
Town of Waxhaw	June 2005	<ul style="list-style-type: none"> ▪ Detail testing of the Town's internal control structure at the Town's request.
Cabarrus County	December 2004	<ul style="list-style-type: none"> ▪ Correspondence to IRS regarding the non-profit status of a component unit of the County.

4. PEER REVIEW

The United States General Accounting Office has a requirement that all accounting firms conducting governmental audits must participate in an external peer review. We are pleased to announce that after a thorough study of our procedures and work practices the reviewers concluded that *our firm complies with the highest quality control standards* as established by the American Institute of Certified Public Accountants (AICPA). Our most recent peer review was completed in May 2013 and is attached.

Potter & Company is recognized as one of the leaders in the peer review (practice monitoring) program. Two of our partners have previously served as chairman of the North Carolina Peer Review Executive Committee. One of our partners continues to serve as a member of the committee and two other partners have also served as members of the North Carolina Peer Review Executive Committee. This committee has the oversight responsibility for the peer review of over 1,200 CPA firms in North Carolina. Potter & Company is one of a few firms in North Carolina selected by the North Carolina Association of Certified Public Accountants to be a technical reviewer of peer reviews.

5. PROFESSIONAL EXPERIENCE

Overall responsibility for the work performed for the **Town of Indian Trail** will rest with John W. Kapelar, a partner of Potter & Company. A team of professionals will be assigned, and the work will be carried out under the direct supervision of a partner, assisted by senior and staff accountants. We believe that the experience and talent of our professional staff are adequate to satisfactorily staff the engagement. Our firm policy is to assign staff members who have previous experience on the engagement each year. A background of the professionals who would be responsible for the engagement follows:

John W. Kapelar, CPA

John is an audit partner and will serve as the partner-in-charge. John is actively involved in directing, reviewing and performing engagements in the governmental field. He has served as the partner-in-charge on the audit of Union County (eight years), City of Concord (eight years), Cabarrus Health Alliance (sixteen years), the Water & Sewer Authority of Cabarrus County (ten years), and Cabarrus County (six years). His governmental experience includes compliance auditing for units receiving funding from the U.S. Department of Housing and Urban Development and the U. S. and North Carolina Departments of Transportation, financial auditing for units with water and sewer, solid waste, electrical, natural gas, transit and airport enterprise funds, various capital project and special revenue funds, as well as drafting financial statements with and without CAFR's and helping units to implement GASB 34. The audited units have had various levels of debt including: Certificate of Participation (COPS), installment financing obligations, state revolving loan funds, revenue bonds, general obligation bonds and debt with swap instruments attached to them. He has prepared and assisted in the preparation of financial statements which received the Certificate of Achievement for Excellence in Financial Reporting. John has previously served on the North Carolina Association of Certified Public Accountants Governmental Accounting and Auditing Committee. We estimate that John will be on site 15% to 25% of the time during our audit fieldwork.

Each year John attends governmental courses sponsored by the North Carolina Association of Certified Public Accountants and the Institute of Government including courses for performing Single Audits of governmental organizations, implementing the revised risk assessment auditing standards, implementing GASB 63 and 65, internal controls within a governmental unit, and updates for Governmental Accounting and Auditing.

A resume is included in the appendices.

Sheila Mulkey, CPA

Sheila is an audit manager and will serve as the primary contact for Town personnel during the audit. Prior to 2007, Sheila was an audit senior manager with a large regional accounting firm where she managed several large governmental audits. She returned to public accounting in August of 2014 after seven years in industry. Sheila maintains her office in our Concord location although she primarily services clients of the Monroe office. Since joining Potter & Company she has served as the audit manager on audits of Union County (one year), the City of Concord (two years) and the Water and Sewer Authority of Cabarrus County (one year) and assisted in workpaper review of other governmental audit clients. She assisted Rowan County with preparation of its 2015 CAFR. Sheila has experience in compliance auditing and auditing units with solid waste, water and sewer, electrical and airport enterprise funds as well as various types of capital project and special revenue funds, in addition to drafting financial statements. Sheila has audited units that have had various levels of debt including: Certificate of Participation (COPS), installment financing obligations, revenue bonds, general obligation bonds and debt with swap instruments attached to them. She has assisted in the preparation of financial statements which received the Certificate of Achievement for Excellence in Financial Reporting. We estimate that Sheila will be on site 75% to 85% of the time during our fieldwork.

A resume is included in the appendices.

Dan Morrow, CPA

Dan is an audit manager and will serve as the manager overseeing the audit of federal and state grants. He has served as the manager for compliance audits of the City of Statesville (4 years), the City of Concord (2 years), the Town of Mooresville (9 years), and Dare County (9 years). Dan is based in the firm's Concord office, but serves governmental clients of all offices. He has extensive experience in compliance auditing for units receiving funding from the U.S. Department of Housing and Urban Development and the U. S. and North Carolina Departments of Transportation. Dan will be onsite for 90% of the compliance auditing fieldwork.

A resume is included in the appendices.

6. EDUCATIONAL BACKGROUND

Our professionals work on a variety of client projects. Ongoing education and training are a part of every team member's annual responsibilities. Recognizing that it is vital for professionals to maintain positive career momentum and growth, the firm invests in career and personal growth of its team members.

As required by *Government Auditing Standards*, staff assigned to governmental audits received at least 80 hours of CPE that directly enhances the auditor's professional proficiency to perform audits and/or attestation engagements every two years. At least 24 of those 80 hours of CPE are in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the governmental entity operates. At least 20 hours of the 80 are completed in any one year of the two-year period.

Our staff, including our management group, receives extensive continuing education. All staff involved in governmental audits attend education courses offered by the Local Government Commission and the North Carolina Association of Certified Public Accountants.

Relevant courses attended within the past 3 years are as follows:

John W. Kapelar, CPA – Partner in Charge

- Government Audit Quality Center 2014 Update (webcast)
- Documenting Compliance Testing Under OMB Circular A-133
- Accounting and Auditing Update
- NC Local Government Auditing and Reporting & Review
- Local Government Conference
- Step by Step Guide to Compliance Auditing
- Professional Ethics

Sheila Mulkey, CPA – Audit Manager

- Documenting Compliance Testing Under OMB Circular A-133
- Local Government Conference
- Accounting and Auditing Update
- Professional Ethics

Dan Morrow, CPA – Audit Manager

- NC Local Government Auditing and Reporting and Review
- Single Audit Background and Overview
- Major Program Determination and Overview of OMB Compliance
- Single Audits
- Local Government Conference
- Documenting Compliance Testing Under OMB Circular A-133
- Professional Ethics

All staff assigned to governmental audits meet the CPE requirements of *Government Auditing Standards*.

7. EXPERIENCE

As more fully described in Items 2 and 5, our governmental audit team has extensive experience in performing audits with various levels of activity within enterprise, capital project, and special revenue funds. These same entities also have various types of debt. Additionally, our team has experience in performing audits in accordance with the provisions of the Federal and State Single Audit Acts.

8. SPECIALIZED SKILLS AND TRAINING

Our audit team is the result of recruiting top students from accounting schools and is comprised of individuals at various levels of experience, which is indicative of our growing practice. Our staff, as well as our management group, receives extensive continuing education. All partners, managers and staff who perform governmental audits attend continuing education courses offered by the Local Government Commission, the North Carolina Association of Certified Public Accountants, and the Institute of Government. This training is more fully described in Item 6.

9. REFERENCES

Jessica Jones, Deputy Finance Director

City of Concord

Post Office Box 308

Concord, North Carolina 28026

(704) 920-5222

jonesj@concordnc.gov

Leslie Heidrick, Assistant County Manager / Finance Director

Rowan County

130 West Innes Street

Salisbury, North Carolina 28144

(704) 216-8170

Leslie.Heidrick@rowancountync.gov

Debbie Cox, Controller

Union County

500 N. Main St

Monroe, North Carolina 28112

(704) 283-3523

cox@co.union.nc.us

Mike Wilson, Finance Director / Interim Executive Director

Water & Sewer Authority of Cabarrus County

Post Office Box 428

Concord, North Carolina 28082

(704) 786-1783

mwilson@wsacc.org

Warren Wood, Town Manager

Town of Waxhaw

Post Office Box 6

Waxhaw, North Carolina 28173

(704) 843-2195

wwood@waxhaw.com

10. STATEMENT OF POLICIES AND PROCEDURES

As required by professional standards, including Government Auditing Standards, we remain independent to all our clients. We routinely monitor this by evaluating our relationship to clients and that of our staff. Our staff makes annual representation to the firm as to their independence. Client listings are updated and circulated often to ensure proper independence. Any questions of independence are discussed with appropriate partner personnel and with the North Carolina State Board of CPA Examiners for clarification. We have no independence issues.

Excerpts from Potter & Company, P.A.'s Quality Control Manual related to independence and professional development are included in the appendices.

11. INSURANCE COVERAGE

Our firm has always maintained adequate liability insurance with a reputable insurance underwriter

12. REGULATORY ACTION

Neither the firm nor any accountants of the firm have had action taken against them by a regulatory or oversight body. We have not had any judgments or actions taken against us for malpractice.

**SECTION I
APPENDICES TO REQUEST
FOR PROPOSAL FOR
THE TOWN OF INDIAN TRAIL**

RELEVANT ETHICAL REQUIREMENTS

The AICPA Code of Professional Conduct establishes the fundamental principles of professional ethics, which include:

- Responsibilities
- The public interest
- Integrity
- Objectivity and independence
- Due care
- Scope and nature of services

It is the policy of our firm that all professional personnel be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, the NC Board of Accountancy, the NC Association of CPAs, and state statutes. Furthermore, it is the policy of our firm that, for engagements that are subject to Government Auditing Standards and other regulatory agencies, all professional personnel be familiar with and adhere to the independence rules included in those standards and that personnel will always act in the public interest. Any transaction, event, circumstance, or action that would impair independence or violate the firm's relevant ethical requirements policy on an audit, attestation, review, compilation engagement, or other service subject to the standards of the AICPA Auditing Standards Board or the AICPA Accounting and Review Services Committee (as required under Rules 201 and 202) is prohibited. Additionally, when the firm and its professional personnel encounter situations that raise potential independence threats but such situations are not specifically addressed by the independence rules of the AICPA *Code of Professional Conduct*, the situation will be evaluated by referring to the *Conceptual Framework for AICPA Independence Standards* and applying professional judgment to determine whether an independence breach has occurred. The firm will take appropriate action to eliminate those threats or mitigate them to an acceptable level by applying safeguards. If effective safeguards cannot be applied, the firm will withdraw from the engagement or take other corrective actions as appropriate to eliminate the breach. Although not necessarily all-inclusive, the following are considered to be prohibited transactions and relationships:

- a. Investments by any partner or professional employee in a client's business during the period of a professional engagement, including a commitment to acquire any direct or material indirect financial interest in a client.
- b. An investment in an entity or property by any of the following individuals and the client (or the client's officers or directors or any partner who has the ability to exercise significant influence over the client) that enables them to control (as defined by GAAP for consolidation purposes) the entity or property.
 1. An individual on an attest engagement team.
 2. An individual in a position to influence the attest engagement by doing any of the following:
 - a. evaluating the performance or recommending the compensation of the attest engagement partner,
 - b. directly supervising or managing the attest engagement partner and all of that partner's superiors,
 - c. consulting with the attest engagement team about technical or industry-related issues specific to the engagement, or
 - d. participating or overseeing quality control activities, including internal monitoring, with respect to the attest engagement.

3. A partner or manager who provides nonattest services to the attest client beginning once he or she provides ten or more hours of nonattest services to the client within any fiscal year and ending on the later of the date:
 - a. the firm signs the report on the financial statements for the fiscal year during which those services were provided, or
 - b. he or she no longer expects to provide ten or more hours of nonattest services to the attest client on a recurring basis.
4. A partner in the office in which the lead attest engagement partner primarily practices with respect to the attest engagement.
5. The firm and its employee benefit plans.
- c. Borrowing from or loans to a client, or client's personnel, during the period of a professional engagement by any of the individuals listed in items b (1)-(5).
- d. Accepting or offering gifts or entertainment from or to a client, unless reasonable in the circumstances and approved by the managing partner.
- e. Certain family relationships between professional personnel and client personnel. (Consult the managing partner for a ruling on these.)

Notwithstanding the preceding policy and list of prohibited transactions and relationships, at the managing partner's discretion, certain prohibitions can be waived if it is deemed to be in the best interest of the firm. However, in so doing, the engagement service performed for the client must be limited to that allowed by AICPA professional literature.

The procedures listed below are followed to ensure compliance with this policy.

1. All personnel have ready access to the relevant ethical requirements to which the firm is subject. Those requirements include the AICPA *Code of Professional Conduct*, the State of North Carolina Board of Accountancy, and the State of North Carolina CPA Society ethical requirements. The firm maintains a current copy of those ethical requirements in the firm's library and personnel also have online access to the information. The firm expects its personnel to be familiar with those relevant ethical requirements.
2. All professional personnel are required to sign a representation letter when hired, and on an annual basis thereafter, that acknowledges their familiarity with the firm's relevant ethical requirements policy and procedures, particularly with regard to independence. Such signed representation letters are also required from part-time, seasonal, and contract professionals and any other individuals who work on accounting and auditing engagements and are required to be independent. Ethics training is provided for CPAs every year as required by the North Carolina Board of CPA Examiners.
3. All professional personnel are required to notify the managing partner of any potential prohibited transaction or violation of an independence, integrity, or objectivity rule as soon as they become aware of such a situation. To acknowledge that responsibility, all professional personnel are required when hired, and on an annual basis thereafter, to sign a representation letter and to list known situations that could impair independence or that violate the firm's integrity and objectivity policy. (The firm library contains the authoritative rules on independence, integrity, and objectivity that govern our firm. That literature and the advice of the managing partner should be consulted when an employee is not sure if a transaction, event, circumstance, or action should be reported.)

4. All professional personnel are required to review the firm's client list annually for possible violations. The list of clients is maintained in the time and billing software and additions to the list are communicated on a timely basis by periodic communications from the managing partner. When hired (and annually thereafter), all professional personnel are required to sign a representation that confirms this responsibility.
5. If our firm is engaged as principal auditor and another firm is engaged to audit a subsidiary, branch, division, or to perform procedures on an element or account grouping within a client's financial statement, the engagement team is required to obtain a written representation regarding the other firm's independence with respect to our client. The auditing manuals used by the firm contain examples of representation letters to use in such situations. Furthermore, in a review or attestation engagement, if another firm performs work on a segment of the engagement, a representation (either written or oral) regarding the other firm's independence is required. The engagement programs in the accounting and auditing manuals used by our firm contain steps to ensure compliance with this procedure.
6. The engagement partner has the primary responsibility for determining if there are unpaid fees on any of his or her clients that would impair the firm's independence. The engagement work programs and standard forms used by the firm contain steps to ensure compliance with this procedure. The firm's client accounts receivable listing and the engagement partner's knowledge of unbilled fees should be considered in making this determination. In addition, the managing partner has secondary responsibility to review the firm's accounts receivable listing on a periodic basis to identify potential independence problems.
7. The engagement partner has the primary responsibility to identify all nonattest services performed for an attest service client and for determining if such nonattest services impair independence with respect to that client. Reviewing nonattest services performed for attest clients includes obtaining and documenting an understanding with the client regarding the client's responsibilities for the nonattest services performed by the firm. Where applicable, this includes determining whether such nonattest (nonaudit) services impair independence under the independence rules in Government Auditing Standards for ongoing, planned, and future audits. Firm engagement work programs for all attest, as well as compilation, engagements, include steps to ensure compliance with this procedure.
8. The engagement partner has the primary responsibility for determining whether actual or threatened litigation has an effect on the firm's independence with respect to the client. The firm's independence could be impaired by litigation (a) between the client and the firm, (b) with the client company's securities holders, and (c) from other third parties.
9. If our firm is engaged as principal auditor to report on the basic financial statements of a financial reporting entity, all professional personnel must be independent of the financial reporting entity. If our firm is engaged as principal auditor to report on a major fund, nonmajor fund, internal service fund, fiduciary fund, or component unit of the financial reporting entity, all professional personnel must be independent of the fund or entity the firm reports on. The engagement partner has the primary responsibility for determining whether the firm's relationship with entities in the governmental financial statements has an effect on independence.
10. The managing partner has the primary responsibility for determining whether the firm was a party to a cooperative arrangement with a client that was material to the firm or the client.
11. The quality control director is responsible for obtaining the independence representation letters and for resolving questions relating to independence, integrity, and objectivity matters and is available to provide guidance. In so doing, the quality control director should, when necessary, consult the AICPA or the NCACPA for assistance in interpreting independence, integrity, and objectivity rules. Documentation of the resolution of an independence, integrity, and objectivity matter should be filed in the client's permanent workpaper files. The quality control director is also responsible for determining actions to be taken when

professional personnel violate firm independence policies and procedures. The action for each incident is determined based on its unique circumstances and may include eliminating a personal impairment, additional training, reprimand letter, or termination.

12. If a breach of independence is identified, the breach and the required corrective actions are promptly communicated to (a) the quality control director, (b) the engagement partner, who (along with the firm) needs to address the breach, and (c) other relevant personnel in the firm and those subject to the independence requirements who need to take appropriate action. The engagement partner confirms to the quality control director when required corrective actions related to the independence breach and noncompliance with these policies and procedures have been taken.
13. The managing partner is also responsible for monitoring the firm's independence of attest clients at which partners or other senior personnel have been offered management positions or have accepted offers of employment. The independence, integrity and objectivity questionnaire used by the firm and the client acceptance checklists used by the firm in attest engagements include questions to help ensure compliance with this requirement.
14. All professional personnel remain alert for any evidence of noncompliance with relevant ethical requirements during the engagement and are required to promptly notify the engagement partner and the quality control director of any circumstances or relationships that may create a potential threat to independence (such as a potential prohibited transaction) or an independence breach, so that appropriate action can be taken.
15. If a potential threat to independence is identified, the quality control director accumulates and communicates relevant information to appropriate personnel so (a) firm management and the engagement partner can determine whether they satisfy independence requirements, (b) the engagement partner can take appropriate action to address identified threats to independence, and (c) current independence information can be maintained. For clients of whom the firm is not independent, only compilation services are performed and the firm discloses the lack of independence in its accountant's compilation reports for those clients.
16. To ensure that independence is properly considered at the engagement level, the work programs and standard forms in the accounting and auditing manuals used by the firm contain steps that require a determination of independence on each new and recurring client. Furthermore, these manuals contain reporting guidance for those types of engagements where a lack of independence is allowed.
17. At least annually, the quality control director will review the independence, integrity, and objectivity policy and procedures to determine if they are appropriate and operating effectively. Changes, if necessary, will be made based on the results of the reviews.

PROFESSIONAL DEVELOPMENT

It is the policy of our firm that all professional personnel comply with the continuing professional education requirements of the AICPA, the North Carolina Board of CPA Examiners, the U.S. General Accounting Office, and other regulatory agencies if applicable; that all professional staff maintain an adequate awareness and understanding of current developments in professional standards that all non-licensed professional staff work toward passing the CPA exam; and that all professional staff assist in the training and development of staff members under their supervision. The procedures listed below are followed to ensure compliance with this policy.

1. Annually, the partners assigned responsibility for continuing professional education (CPE) assess the firm's CPE needs and plan our professional development (PD) program after considering, among other things, CPE activities that interest each professional; the number of hours needed by each professional to comply with the CPE rules governing our firm; each professional's level of experience, client responsibilities, and prior CPE training; new or emerging professional standards; and the firm's needs for specialists or experts in a particular industry or service area.
2. The partners assigned responsibility for CPE monitor employee progress toward meeting the CPE plan.
3. Only CPE alternatives that qualify for credit under the CPE rules that govern our firm will be considered when planning our PD program. Such alternatives normally include seminars and conferences sponsored by the AICPA, NCACPA, or other professional organizations; self-study courses; in-house seminars and programs; acting as an instructor or speaker; university or college courses; and published books, articles, and CPE courses. Specifically, when CPE hours are to be fulfilled by in-house seminars, workshops, or discussion groups, each in-house program should comply with the following standards:
 - a. The program should maintain and/or increase the professional competence of participants.
 - b. The program should be developed by an individual qualified in the subject matter and knowledgeable in instructional design.
 - c. Program materials should be technically accurate, current, and sufficient to meet the program's learning objectives.
 - d. Instructors should be qualified with respect to both program content and teaching methods used.
 - e. The number of participants and physical facilities should be appropriate for the teaching method(s) specified.
 - f. Each program should include an effective means of evaluation.
4. Individuals who work on audits and attestation engagements subject to the *Government Auditing Standards*, including planning, directing, performing fieldwork, or reporting, should complete at least 24 hours of CPE every two years that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. In addition, auditors who do any amount of planning, directing, or reporting on Yellow Book assignments and auditors who are not involved in those activities but charge at least 20% of their time annually to Yellow Book assignments are required to also obtain at least another 56 hours (for a total of 80 hours) of CPE that enhances their professional proficiency to perform audits or attestation engagements. In other words, everyone working on a Yellow Book engagement has to meet the 24-hour requirement. However, auditors who do not do any planning, directing, or reporting on a Yellow Book engagement, or who do not spend at least 20% of their time annually on Yellow Book engagements are not required to obtain an additional 56 hours of CPE to comply with the 80-hour requirement.

- a. In accordance with the membership requirements of the AICPA Governmental Audit Quality Center's membership requirements, the partner assigned firm wide responsibility for the quality of the firm's governmental audit practice must meet both the 24-hour and 80-hour CPE requirements even if that partner would not otherwise be subject to those requirements. The partner must also participate in the annual Center sponsored webcast on recent developments in governmental auditing.
 - b. Individuals who sign audit opinions and/or manage ERISA employee benefit plan audit engagements and individuals who work on ERISA employee benefit plan audit engagements must meet the CPE requirements of the AICPA Employee Benefit Plan Audit Quality Center.
5. To comply with the documentation requirements of the AICPA, state board of accountancy, the U.S. General Accounting Office, and the other regulatory agencies for CPE credit, the firm maintains appropriate CPE records, among which are the following:
- a. For each professional, a worksheet is maintained that contains the following information for each credit hour claimed:
 - (1) Type of CPE activity (seminar, in-house program, self-study, independent study, etc.).
 - (2) Sponsor.
 - (3) Title of program.
 - (4) Dates attended or completed.
 - (5) CPE hours claimed.
 - b. For each in-house CPE program sponsored by the firm, the following records are maintained:
 - (1) A record of participation, indicating the number of CPE hours claimed for each participant.
 - (2) An agenda or outline of the program, indicating name(s) of the instructor(s), the date(s) and length of the program, program content, and recommended CPE credit.
 - (3) The location(s) of the program.
 - (4) A copy of the program materials (reading materials, problems, case studies, visual aids, instructors' manuals, etc.).
 - (5) A summary of the participants' evaluations.
 - (6) If the course was developed in-house, a record of the name(s), and qualifications of the developer(s) and reviewer(s).
 - (7) If the course was acquired from another source, evidence that the course was developed and reviewed by qualified individuals.
 - c. For all other CPE programs or activities, the following records are maintained:
 - (1) For group and independent study programs, a certificate or other verification supplied by the sponsor.
 - (2) For a university or college course that is successfully completed for credit, a record of the grade the person received.
 - (3) For a self-study program, a certificate of satisfactory completion of an examination provided by the sponsor.
 - (4) For a published book, article, or CPE program, evidence of publication (a copy of the book, journal, or course development documentation) that names the CPA as author or contributor.

6. Each professional in our firm must recognize his or her responsibility to comply with applicable continuing professional education requirements to maintain technical competency. Accordingly, all professionals are encouraged to engage in self-development activities. To assist in this endeavor, the firm maintains a current library and circulates within the firm important news about new or emerging changes in professional literature or business activities. All professionals are encouraged to bring to the attention of the managing partner any news item they believe should be circulated within the office.
7. The firm recognizes the importance of on-the-job training and has adopted, as a part of the firm's engagement performance QC system, the use of work programs to assist professionals in performing their work. Also, as noted in the firm's QC system for assigning personnel, professionals are assigned to work on a variety of jobs and under different supervisors (to the extent practical) to maximize on-the-job training. Personnel with supervisory responsibility are reminded to be constantly aware of situations where they can provide on-the-job training.
8. The firm recognizes the benefit of other professional development activities and encourages personnel at each staff level to participate in personal development activities such as completing external professional development programs, becoming members of professional organizations, serving on professional committees, writing for professional publications and speaking to professional groups.