



April 1, 2025

The Honorable Mayor and City Council
Douglas J Hewett, City Manager
Jeffrey Yates, Interim Chief Financial Officer
City of Fayetteville
Fayetteville, NC

Attention: Mayor Colvin, Douglas Hewett, City Manager and Jeffrey Yates, Interim Chief Financial Officer

The Objective and Scope of the Audit of the Financial Statements

You have requested that PB Mares, LLP (“PB Mares”, “we”, “us”, “our”) audit the City of Fayetteville (“City”, “you”, or “your”), governmental activities, business-type activities, aggregate discretely presented component unit, each major fund, and aggregate remaining fund information as of and for the year ending June 30, 2025, and the related notes to the financial statements, which collectively comprise the basic financial statements. In addition, the Other Supplemental Information, the Schedule of Expenditures of Federal and State Awards, and Passenger Facility Charges presented in relation to the financial statements taken as a whole will be subjected to the auditing procedures applied in our audit of the basic financial statements. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter (“Engagement Letter”).

The objectives of our audit 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 Government Auditing Standards issued by the Comptroller General of the United States (“GAS”) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements. 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.

You have also requested that PB Mares perform the audit of the City as of June 30, 2025 to satisfy the audit requirements imposed by the Single Audit Act and Subpart F 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), the State Single Audit Implementation Act and 14 Code of Federal Regulations (CFR) Part 158, “Passenger Facility Charges” (PFC program).

The Responsibilities of the Auditor

We will conduct our audit in accordance with GAAS; GAS; the Uniform Guidance; the U.S. Office of Management and Budget's (OMB) Compliance Supplement; and the State Single Audit Implementation Act. Those standards, regulations, supplement, and Act require that we comply with applicable ethical requirements. As part of an audit in accordance with those standards, regulations, supplement, and Act, we exercise professional judgment and maintain professional skepticism throughout the audit. We will also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, based on an understanding of the City and its environment, the applicable financial reporting framework, and the City's system of internal control, 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.
2. Consider the City's system of internal control 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 City'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.
3. 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.
4. Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City'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 controls, 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 GAS. Because the determination of waste or abuse is subjective, GAS does not require auditors to perform specific procedures to detect waste or abuse in financial statement audits.

We will communicate to the City Council (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements that becomes known to us during the audit, and (b) any instances of noncompliance with laws and regulations that we become aware of during the audit (unless they are clearly inconsequential).

We are responsible for the compliance audit of major programs under the Uniform Guidance and the and State Single Audit Implementation Act, including the determination of major programs, the consideration of internal control over compliance, and reporting responsibilities.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Our reports on internal control over financial reporting and over compliance for major programs will include any significant deficiencies and material weaknesses in internal controls over financial reporting and over compliance for major programs of which we become aware as a result of updating our understanding of internal control and performing tests of internal control over financial reporting and over compliance for major programs consistent with requirements of the standards, regulations, supplement, and Act identified above. Our reports on compliance matters will address material errors, fraud, violations of compliance obligations, and other responsibilities imposed by state and federal statutes and regulations or assumed by contracts, and any state or federal grant, entitlement or loan program questioned costs of which we become aware, consistent with requirements of the standards, regulations, supplement, and Act identified above.

We will maintain our independence in accordance with the standards of the American Institute of Certified Public Accountants ("AICPA") and GAS.

The Responsibilities of Management and Identification of the Applicable Financial Reporting Framework

Management is responsible for:

1. Identifying and ensuring that the City complies with the laws and regulations applicable to its activities, and for informing us about all known violations of such laws or regulations, other than those that are clearly inconsequential;
2. The design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the City involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements; and
3. Informing us of its knowledge of any allegations of fraud or suspected fraud affecting the City received in communications from employees, former employees, analysts, regulators, short sellers, vendors, customers or others.

Management is responsible for the preparation of the required supplementary information ("RSI") which the Governmental Accounting Standards Board ("GASB") requires be presented to supplement the basic financial statements. Management is also responsible for the preparation of the Schedule of Expenditures of Federal and State Awards, Passenger Facility Charges, other supplementary information, and supporting schedules in accordance with U.S. GAAP. Management agrees to include the auditor's report on the Schedule of Expenditures of Federal and State Awards, Passenger Facility Charges, other supplementary information, and supporting schedules in any document that contains the supplementary information and indicates that the auditor has reported on such Schedule of Expenditures of Federal and State Awards, Passenger Facility Charges, other supplementary information, and supporting schedules. Management also agrees to present the Schedule of Expenditures of Federal and State Awards, Passenger Facility Charges, other supplementary information, and supporting schedules with the audited financial statements or, if the Schedule of Expenditures of Federal and State Awards, Passenger Facility Charges, other supplementary information, and supporting schedules will not be presented with audited financial statements, to make the audited financial statements readily available to the intended users of the Schedule of Expenditures of Federal and State Awards, Passenger Facility Charges, other supplementary information, and supporting schedules no later than the date of issuance of the Schedule of Expenditures of Federal and State Awards, Passenger Facility Charges, other supplementary information, and supporting schedules and the auditor's report thereon.

The City Council is responsible for informing us of its views about the risks of fraud, waste or abuse within the City, and its knowledge of any fraud waste or abuse or suspected fraud, waste or abuse affecting the City.

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. To evaluate subsequent events through the date the financial statements are issued or available to be issued, and to disclose the date through which subsequent events were evaluated in the financial statements. Management also agrees that it will not conclude on subsequent events earlier than the date of the management representation letter referred to below;
3. For the design, implementation and maintenance 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;
4. For report distribution; and
5. 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 information relevant to disclosures;
 - b. Draft financial statements, including information relevant to their preparation and the fair presentation, when needed, to allow for the completion of the audit in accordance with the proposed timeline.
 - c. Additional information that we may request from management for the purpose of the audit; and
 - d. Unrestricted access to persons within the City from whom we determine it necessary to obtain audit evidence.

The City's Annual Report as contained in the Annual Comprehensive Financial Report will be issued before October 31, 2025. These documents will be provided to PBMares prior to the issuance of the documents and prior to the issuance of the auditor's report.

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, including among other items:

1. That management has fulfilled its responsibilities as set out in the terms of this Engagement Letter; and
2. That it believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Because the audit will be performed in accordance with the Single Audit Act and the Uniform Guidance, and the State Single Audit Implementation Act, management is responsible for (a) identifying all federal and state awards received and expended; (b) preparing and the fair presentation of the schedule of expenditures of federal and state awards (including notes and noncash assistance received) in accordance with Uniform Guidance requirements; (c) internal control over compliance; (d) compliance with federal statutes, regulations, and the terms and conditions of federal awards; (e) making us aware of significant vendor relationships where the vendor is responsible for program compliance; (f) following up and taking corrective action on audit findings, including the preparation of a summary schedule of prior audit findings and a corrective action plan; (g) timely and accurate completion of the data collection form and (h) submitting the reporting package and data collection form.

Reporting

We will issue a written report upon completion of our audit of the City's financial statements. Our report will be addressed to the City Council and the City of Fayetteville. 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 opinion, or add an emphasis-of-matter or other-matter paragraph to our auditor's report.

If circumstances arise relating to the condition of the City's records, the availability of appropriate audit evidence or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting or misappropriation of assets which, in our professional judgment, prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including, but not limited to, declining to express an opinion or issue a report, or withdrawing from the engagement.

In addition to our report on the City's financial statements, we will also issue the following types of reports:

1. A report on the fairness of the presentation of the City's Schedule of Expenditures of Federal and State Awards and Schedule of Passenger Facility Charges for the year ending June 30, 2025;
2. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with GAS;
3. Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance;
4. Report on Compliance for Each Major State Program and Report on Internal Control Over Compliance in Accordance with the State Single Audit Implementation Act;
5. A schedule of findings and questioned costs;
6. Report on compliance with 14 Code of Federal Regulations (CFR) Part 158, "Passenger Facility Charges" (PFC program); and

You have informed us that you intend to prepare an annual comprehensive financial report (“ACFR”) and submit it for evaluation by the Government Finance Officers Association’s (“GFOA”) Certificate of Achievement for Excellence in Financial Reporting. Our association with the ACFR is to consist of assisting with replying to the GFOA comments and ensuring the comments have been addressed with the current year ACFR.

Records and Assistance

During the course of our engagement, we may accumulate records containing data that should be reflected in the City’s books and records. The City will determine that all such data, if necessary, will be so reflected. Accordingly, the City will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by City personnel, including the preparation of schedules and analyses of accounts, has been discussed and coordinated with Jeffrey Yates, Interim Chief Financial Officer. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

Nonaudit Services

In connection with our audit, you have requested us to perform certain nonaudit services:

1. Assistance with adoption of GASB 101

The GAS independence standards require that the auditor maintain independence so that opinions, findings, conclusions, judgments and recommendations will be impartial and viewed as impartial by reasonable and informed third parties. Before we agree to provide a nonaudit service to the City, we determine whether providing such a service would create a significant threat to our independence for GAS audit purposes, either by itself or in aggregate with other non-audit services provided. A critical component of our determination is consideration of management’s ability to effectively oversee the non-audit service to be performed. The City has agreed that Jeffrey Yates, Interim Chief Financial Officer, possesses suitable skill, knowledge or experience and that the individual understands the nonaudit services to be performed and described above, sufficiently to oversee them. Accordingly, the management of the City agrees to the following:

1. The City has designated Jeffrey Yates, Interim Chief Financial Officer, as a senior member of management who possesses suitable skill, knowledge and experience to oversee the services;
2. Jeffrey Yates, Interim Chief Financial Officer, will assume all management responsibilities for subject matter and scope of the nonaudit services;
3. The City will evaluate the adequacy and results of the services performed; and
4. The City accepts responsibility for the results and ultimate use of the services.

GAS further requires that we establish an understanding with the City's management and those charged with governance of the objectives of the nonaudit services, the services to be performed, the City's acceptance of its responsibilities, the auditor's responsibilities and any limitations of the nonaudit services. We believe this letter documents that understanding.

Our services under this Engagement Letter do not include services for tax return preparation, tax advice or representation in any tax matter. Nevertheless, we may discuss with you certain tax considerations or provide you with tax information that may be relevant to our services. Any such discussions or information would be based upon limited tax research, limited due diligence and limited analysis regarding the underlying facts. Because additional research or a more complete review of the facts could affect our analysis and conclusions, the information provided during these discussions shall not be used as the basis for proceeding with any transaction or any tax return reporting.

Separate arrangements, including fee arrangements, are required for tax preparation, tax advice or tax representation services.

Other Relevant Information

In accordance with GAS, a copy of our most recent peer review report is attached.

Fees, Costs, and Access to Workpapers

Our fee is not expected to exceed \$124,000, which include testing of four major federal or state grants. Our fees reflect the time and resources required to complete our services at our standard rates. You will also be billed a charge of 5% of fees for all other expenses, including indirect administrative expenses such as technology, research and library databases, communications, photocopying, postage and clerical assistance. If required, there will be additional fees of \$6,000 for each additional major program.

We will bill you upon (i) receipt of this executed Engagement Letter, (ii) interim billings as work progresses, and (iii) a final billing upon issuance of final reports or completion of the engagement.

Our fee and completion of our work within the agree-upon timeline will be based upon the following criteria. Noncompliance may lead to delays in completing the work and may result in additional fees, not to exceed 50% of the stated fee.

1. Anticipated cooperation from City personnel;
2. Timely responses to our inquiries;
3. Timely completion and delivery of client assistance requests;
4. Readiness for scheduled fieldwork;
5. Timely communication of all significant accounting and financial reporting matters; and
6. The assumption that unexpected circumstances and/or significant changes in scope will not be encountered during the engagement.

We will communicate with you promptly if any situations arise that may result in additional fees and/or delays in completion and provide a clear explanation of the reasons for additional fees. We appreciate your understanding and cooperation to ensure a smooth and efficient engagement.

Fees are due and payable upon presentation of our invoice to you. **Amounts not paid within thirty days from the invoice date will be subject to a late payment charge of 1.5% per month (18% per year) and may be subject to a charge of 25% for attorney fees and collection costs.**

Use of Subcontractors and Third-Party Products

We may, in our sole discretion, use qualified subcontractors to assist us in providing professional services to you. In such circumstances, it may be necessary for us to disclose Confidential Information and Personal Information (as such term are defined below) to them. We may share your information, including Confidential Information and Personal Information, with these subcontractors provided that such recipients are bound by written obligations of confidentiality. You acknowledge and agree that our use of a subcontractor may involve the processing, input, disclosure, movement, transfer, and storage of your information and data, including Confidential Information and Personal Information, outside the United States and outside of our technology infrastructure. We will be responsible to you for the performance of our subcontractors, solely as it relates to the services performed under this Engagement Letter, subject to all limitations and disclaimers set forth herein.

We also may provide services to you using certain third-party hardware, software, equipment, or products (collectively, "Third-Party Products" and each individually, a "Third Party Product"). You acknowledge that the use of a Third-Party Product may involve the processing, input, disclosure, movement, transfer, and storage of information provided by or on behalf of you to us, including Confidential Information and Personal Information, within the Third-Party Product's infrastructure and not ours, which may result in the access, transfer, disclosure, storage or processing of such information and data outside of the United States. You further acknowledge that the terms of use and service, including, but not limited to, applicable laws, set forth in the end-user license, end-user subscription agreement, or other end-user agreement or such Third-Party Product (collectively, "EULA(s)") will govern all obligations of the licensor of such Third-Party Product relating to data privacy, storage, recovery, security, and processing within such Third-Party Product's infrastructure, as well as, the service levels associated with such Third-Party Product. You hereby consent to the disclosure of your information, including your Confidential Information and Personal Information, to the licensors of such Third-Party Products for the purpose described herein, and you acknowledge and agree that such City-provided data and information may be collected, processed, stored, and used by such licensors for benchmarking, analytics, marketing, and other business purposes in support of the Third-Party Product.

To the extent PBMAres gives the City access to a Third-Party Product in connection with the services contemplated herein, the City agrees to comply with the terms of any applicable EULA for such Third-Party Product, and the City shall be solely responsible for the improper use of a Third-Party Product or a violation of the applicable EULA for such Third-Party Product, by the City, or any user to whom the City grants access to such Third-Party Product. The City agrees to indemnify and hold PBMAres harmless from and against any claims, actions, lawsuits, proceedings, judgments, liens, losses, damages, costs, expenses, and fees (including reasonable legal fees, expenses, and costs) relating to, or arising from or out of, the improper use of a Third-Party Product, or a violation of the terms of the applicable EULA for such Third-Party Product, by the City, or any user to whom the City grants access to such Third-Party Product.

You acknowledge that the use of Third-Party Products may be subject to limitations, delays, interruptions, errors, and other problems which are beyond our control, including, without limitation, internet outage or lack of availability related to updates, upgrades, patches, fixes, or maintenance. We will not be liable for any damages relating to such limitations, delays, delivery failures, interruptions, errors, or other problems. Nor will we be held responsible or liable for any loss, or unauthorized use or disclosure, of any information or data provided by you, including, without limitation, Personal Information provided by you, resulting from the use of a Third-Party Product.

Use and Ownership; Access to Audit Documentation

The Audit Documentation for this engagement is the property of PBMAres. For the purposes of this Engagement Letter, the term "Audit Documentation" shall mean the confidential and proprietary records of PBMAres' audit procedures performed, relevant audit evidence obtained, other audit-related workpapers, and conclusions reached. Audit Documentation shall not include custom-developed documents, data, reports, analyses, recommendations, and deliverables authored or prepared by PBMAres for the City under this Engagement Letter, or any documents belonging to the City or furnished to PBMAres by the City.

Review of Audit Documentation by a successor auditor or as part of due diligence is subject to applicable PBMAres policies, and will be agreed to, accounted for and billed separately. Any such access to our Audit Documentation is subject to a successor auditor signing an Access & Release Letter provided by PBMAres, without substantive modifications thereto. PBMAres reserves the right to decline a successor auditor's request to review our Audit Documentation.

In the event we are required by government regulation, subpoena or other legal process to produce our documents or our personnel as witnesses with respect to our engagement for the City, the City will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

The documentation for this engagement is the property of PBMAres. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U.S. Government Accountability Office shall have access to the Audit Documentation upon their request and that we shall maintain the Audit Documentation for a period of at least three years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested Audit Documentation will be provided under the supervision of PBMAres audit personnel and at a location designated by our firm.

Dispute Resolution

If any dispute other than fees arises among the parties hereto, the parties agree first to try in good faith to settle the dispute by mediation administered by the American Arbitration Association under its Rules for Professional Accounting and Related Services Disputes before resorting to litigation. The costs of any mediation proceeding shall be shared equally by all parties. You and we consent to personal jurisdiction, both for mediation and/or litigation, of the Federal District Court, Eastern District of Virginia, sitting in Newport News, Virginia, or the Newport News Circuit Court. Participation in such mediation shall be a condition to either of us initiating litigation. In order to allow time for the mediation, any applicable statute of limitations shall be tolled for a period not to exceed 120 days from the date either of us first requests in writing to mediate the dispute. The mediation shall be confidential in all respects, as allowed or required by law, except our final settlement positions at mediation shall be admissible in litigation solely to determine the prevailing party's identity for purposes of the award of attorneys' fees.

The parties hereto both agree that any dispute over fees charged by the accountant to the client will be submitted for resolution by arbitration in accordance with the Rules for Professional Accounting and Related Services Disputes of the American Arbitration Association. Such arbitration shall be binding and final. The arbitration shall take place in Newport News, Virginia. Any award rendered by the Arbitrator pursuant to this Agreement may be filed and entered and shall be enforceable in the Superior Court of the County in which the arbitration proceeds. In agreeing to arbitration, we both acknowledge that, in the event of a dispute over fees charged by the accountant, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury, and instead we are accepting the use of arbitration for resolution.

Confidentiality

PBMares and the City may, from time to time, disclose Confidential Information (as defined below) to one another. Accordingly, PBMares and the City agree as the recipient of such Confidential Information (the "Receiving Party") to keep strictly confidential all Confidential Information provided to it by the disclosing party (the "Disclosing Party") and use, modify, store, and copy such Confidential Information only as necessary to perform its obligations and exercise its rights under this Engagement Letter. Except as otherwise set forth herein, the Receiving Party may only disclose the Confidential Information of the Disclosing Party to its personnel, agents, and representatives who are subject to obligations of confidentiality at least as restrictive as those set forth herein and only for the purpose of exercising its rights and fulfilling its obligations hereunder. To avoid any doubt, PBMares is permitted to disclose the City's Confidential Information to PBMares' personnel, agents, and representatives (collectively, the "PBMares Parties" and each, individually, a "PBMares Party") for the purpose of exercising its rights and fulfilling its obligations hereunder and to comply with applicable laws and professional, regulatory, and/or ethical standards.

"Confidential Information" means, information in any form, oral, graphic, written, electronic, machine-readable or hard copy consisting of: (i) any nonpublic information provided by the Disclosing Party, including, but not limited to, all of its inventions, designs, data, source and object code, programs, program interfaces, know-how, trade secrets, techniques, ideas, discoveries, marketing and business plans, pricing, profit margins and/or similar information; (ii) any information that the Disclosing Party identifies as confidential; or (iii) any information that, by its very nature, a person in the same or similar circumstances would understand should be treated as confidential, including, but not limited to, this Engagement Letter. Without limiting the generality of the foregoing, the City acknowledges and agrees that Audit Documentation constitutes Confidential Information of PBMares.

“Confidential Information” will not include information that: (i) is publicly available at the time of disclosure by the Disclosing Party; (ii) becomes publicly available by publication or otherwise after disclosure by the Disclosing Party, other than by breach of the confidentiality obligations set forth herein by the Receiving Party; (iii) was lawfully in the Receiving Party’s possession, without restriction as to confidentiality or use, at the time of disclosure by the Disclosing Party; (iv) is provided to the Receiving Party without restriction as to confidentiality or use by a third party without violation of any obligation to the Disclosing Party; or (v) is independently developed by employees or agents of the Receiving Party who did not access or use the Disclosing Party’s Confidential Information.

The Receiving Party will treat the Disclosing Party’s Confidential Information with the same degree of care as the Receiving Party treats its own confidential and proprietary information, but in no event will such standard of care be less than a reasonable standard of care. The Receiving Party will promptly notify the Disclosing Party if it becomes aware that any of the Confidential Information of the Disclosing Party has been used or disclosed in violation of this Engagement Letter.

Notwithstanding the foregoing, in the event that the Receiving Party becomes legally compelled to disclose any of the Confidential Information of the Disclosing Party, or as may be required by applicable regulations or professional standards, the Receiving Party will use commercially reasonable efforts to provide the Disclosing Party with notice prior to disclosure, to the extent permitted by law.

The City consents to the PBMAres Parties using Confidential Information and Personal Information provided by or on behalf of the City to: (i) improve the quality of our services and offerings; and/or (ii) develop or perform internal data analysis, business analytics or insights, or other internal insight generation. Information developed in connection with these purposes may be used or disclosed to current or prospective clients to provide services or offerings. The PBMAres Parties will not use or disclose such Confidential Information or Personal Information in a way that would permit the City or an individual to be identified by third parties without your prior written consent.

Preexisting Nondisclosure Agreements

In the event that the parties have executed a separate nondisclosure agreement, such agreement shall be terminated as of the effective date of this Engagement Letter and the terms of this Engagement Letter shall apply to the treatment of information shared by the parties hereto.

Data Protection Compliance

Our Privacy Policy (“Privacy Policy”) is located on our website at <https://www.pbmares.com/privacy-policy>. Our Privacy Policy may be amended from time to time in our sole discretion and without prior notice, and is hereby incorporated by reference into this Engagement Letter. You acknowledge that you have read and understand the Privacy Policy and agree to the practices as described therein.

Prior to your disclosure to us, please identify in writing any personal, technical, or other data, information, or items subject to heightened protections under applicable statutes, regulations, governmental directives or guidance documents, or other legally binding standards relating to privacy, cybersecurity, export controls, controlled unclassified information, and/or data protection, so we can ensure compliance with such requirements. This includes, but is not limited to, protected health information pursuant to the Health Information Portability and Accountability Act of 1996 (“HIPAA”), classified, marked or unmarked or controlled unclassified information (“CUI”) subject to the National Industrial Security Program Operating Manual (“NISPOM”) (which classified information shall not be provided to any PBMAres Party unless appropriate security clearances have been obtained prior to any such access), marked or unmarked CUI (subject to any provisions of the NISPOM, the Federal Acquisition Regulation (“FAR”) or any FAR supplement, DoD Instruction 5200.48, requirements of the National Archives and Records Administration, or those of the General Services Administration or any other federal government agency), unclassified nuclear technology pursuant to 10 C.F.R. Parts 110 and 810, and exports controlled by the NISPOM, or the Defense Federal Acquisition Regulation Supplement (“DFARS”), data, information, or items subject to the Export Administration Regulations (“EAR”) or International Traffic in Arms Regulations (“ITAR”) controlled data. Unless otherwise expressly agreed upon and specified in writing, you shall not disclose to a PBMAres Party, or provide any PBMAres Party access to such data, information, and items, and you shall be responsible for the handling of all such data, information, and items, in connection with the performance of the services requested hereunder, including, but not limited to, the scrubbing, de-identification, de-aggregation, protection, encryption, transfer, movement, input, storage, migration, deletion, copying, processing, and modification of such data.

Personal Information

As used herein, the term “Personal Information” means any personal information, as may be defined by applicable privacy, data protection or cybersecurity laws, that directly or indirectly identifies a natural person, and includes, but is not limited to, nonpublic, personally identifiable information such as Social Security numbers, Social Insurance numbers, driver’s license numbers or government-issued identification card numbers, and health information.

Each party agrees to transmit Personal Information consistent with applicable laws and any other obligations the respective party may have. We are permitted to use all such Personal Information to perform our obligations and exercise our rights under this Engagement Letter.

You represent and warrant that you have provided all notices and obtained all consents required under applicable data protection laws prior to your collection, use and disclosure to a PBMAres Party of such Personal Information and shall take reasonable steps to ensure that such Personal Information does not include irrelevant or unnecessary information about individuals.

We agree to maintain appropriate security measures to protect such Personal Information in accordance with applicable laws. If we become aware of an unauthorized acquisition or use of City-provided Personal Information, we will promptly inform you of such unauthorized acquisition or use as required by applicable laws and, upon your written request, reasonably cooperate with you at your sole cost in support of any breach notification requirements as imposed upon you by applicable laws.

Retention of Records

We will return to you all original records you provide to us in connection with this engagement. Further, in addition to providing you with those deliverables set forth in this Engagement Letter, we will provide to you a copy of any records we prepare or accumulate in connection with such deliverables which are not otherwise reflected in your books and records without which your books and records would be incomplete. You have the sole responsibility for retaining and maintaining in your possession or custody all of your financial and nonfinancial records related to this engagement. We will not host, and will not accept responsibility to host, any of your records. We, however, may maintain a copy of any records of yours necessary for us to comply with applicable law and/or professional standards or to exercise our rights under this Engagement Letter. Any such records retained by us will be subject to the confidentiality obligations set forth herein and destroyed in accordance with our record retention policies.

Termination

Your failure to make full payment of any and all undisputed amounts invoiced in a timely manner constitutes a material breach for which we may refuse to provide deliverables and/or, upon written notice, suspend or terminate our services under this Engagement Letter. We will not be liable to you for any loss, damage or expense arising out of or from, or relating to, such termination or suspension of our services.

Either party may terminate this Engagement Letter for any reason upon fifteen (15) days' prior written notice to the other party. In the event you or PBMAres, LLP terminate this engagement, you will pay us for all services rendered (including deliverables and products delivered), expenses incurred, and noncancelable commitments made by us on your behalf through the effective date of termination.

Either party may terminate this Engagement Letter upon written notice if: (i) circumstances arise that in its judgment would cause its continued performance to result in a violation of law, a regulatory requirement, a legal process, a contractual obligation with a third-party, applicable professional or ethical standards, or in the case of PBMAres, our client acceptance or retention standards; or (ii) if the other party, or any director, executive, partner or principal thereof, is placed on a Sanctioned List (as defined herein), or if any director or executive of, or other person closely associated with such other party or its affiliate, is placed on a Sanctioned List (as defined herein).

Neither PBMAres nor the City shall be responsible for any delay or failure in its performance resulting from acts beyond its reasonable control (each, a "Force Majeure Event"). Force Majeure Events include, but are not limited to, acts of God, government or war, riots or strikes, disasters, fires, floods, epidemics, pandemics or outbreaks of communicable disease, cyberattacks, and internet or other system or network outages. At your option, you may terminate this Engagement Letter where our services are delayed more than 120 days by a Force Majeure Event; however, you are not excused from paying us for all amounts owed for services rendered and deliverables provided prior to the termination of this Engagement Letter.

When an engagement has been suspended at the request of management or those charged with governance and work on that engagement has not recommenced within 120 days of the request to suspend our work, we may, at our sole discretion, terminate this Engagement Letter without further obligation to you. Resumption of our work following termination may be subject to our client acceptance procedures and, if resumed, will require additional procedures not contemplated in this Engagement Letter. Accordingly, the scope, timing and fee arrangement discussed in this Engagement Letter will no longer apply. In order for us to recommence work, the execution of a new Engagement Letter will be required.

The parties agree that those provisions of this Engagement Letter which, by their context, are intended to survive, including, but not limited to, payment, limitations on liability, dispute resolution, use and ownership, and confidentiality obligations, shall survive the termination of this Engagement Letter.

Miscellaneous

We may mention your name and provide a general description of the engagement in our client lists and marketing materials.

The City agrees that it will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our written permission. Any such request is also a matter for which separate arrangements may be necessary. After obtaining our permission, the City also agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing, and with a copy of the final reproduced material for our approval before it is distributed. If, based on our review, we identify no material inconsistencies with our audit, or other misstatements of fact, we will promptly communicate in writing to the City that we do not object to the inclusion of our report in the offering documents. In the event our auditor/client relationship has been terminated when the City seeks such consent, we will be under no obligation to grant such consent or approval.

Our professional standards require that we perform certain additional procedures, on current and previous years' engagements, whenever a partner or professional employee leaves the firm and is subsequently employed by or associated with a client in a key position. Accordingly, you agree to compensate us for any additional costs incurred as a result of your employment of one of our partners, principals or employees.

Each party hereto affirms it has not been placed on a Sanctioned List (as defined below) and will promptly notify the other party upon becoming aware that it has been placed on a Sanctioned List at any time throughout the duration of this Engagement Letter. The City shall not, and shall not permit third parties to, access or use any of the deliverables provided for hereunder, or Third-Party Products provided hereunder, in violation of any applicable sanctions, laws or regulations, including, but not limited to, accessing or using the deliverables provided for hereunder or any Third-Party Products from any territory under embargo by the United States or Canada. The City shall not knowingly cause PBMAres to violate any sanctions applicable to PBMAres. As used herein "Sanctioned List" means any sanctioned person or entity lists promulgated by the Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. State Department, the Consolidated Canadian Autonomous Sanctions List, the United Nations Security Council, the European Union, and the United Kingdom.

Any term of this Engagement Letter that would be prohibited by or impair our independence under applicable law or regulation shall not apply, to the extent necessary only to avoid such prohibition or impairment.

Notices

Unless otherwise expressly agreed upon by the parties in this Engagement Letter, all notices required to be given hereunder will be in writing and addressed to the party at the business address provided in this Engagement Letter, or such other address as such party may indicate by a notice delivered to the other party. A copy of any legal notice (e.g., any claimed breach or termination of this Engagement Letter) sent by the City to PBMAres shall also be sent to the following address: Office of the General Counsel, PBMAres, LLP, 701 Town Center Drive, Suite 900, Newport News, VA 23606. Except as otherwise expressly provided in this Engagement Letter, notices hereunder will be deemed given and effective: (i) if personally delivered, upon delivery; (ii) if sent by registered or certified mail or by overnight courier service with tracking capabilities, upon receipt; and, (iii) if sent by electronic mail (without indication of delivery failure), at such time as the party that sent the notice receives confirmation of receipt, whether by read-receipt confirmation or otherwise.

Entire Agreement

This Engagement Letter, including any exhibits, policies, schedules, and/or other documents expressly incorporated herein by reference or attached hereto constitutes the entire agreement between PBMAres and the City and supersedes all prior agreements, understandings, and proposals, whether oral or written, relating to the subject matter of this Engagement Letter.

If any term or provision of this Engagement Letter is determined to be invalid or unenforceable, such term or provision will be deemed stricken, and all other terms and provisions will remain in full force and effect.

This Engagement Letter may be amended or modified only by a written instrument executed by both parties.

Electronic Signatures and Counterparts

This Engagement Letter may be executed in one or more counterparts, each of which will be deemed to be an original, but all of which taken together will constitute one and the same instrument. Each party agrees that any electronic signature of a party to this Engagement Letter or any electronic signature to a document contemplated hereby (including any representation letter) is intended to authenticate such writing and shall be as valid, and have the same force and effect, as a manual signature.

Acknowledgement and Acceptance

Each party acknowledges that it has read and agrees to all of the terms contained herein, including any exhibits, policies, schedules, and/or other documents expressly incorporated herein by reference or attached hereto. Each party and its signatory below represent that said signatory is a duly authorized representative of such party and has the requisite power and authority to bind such party to the undertakings and obligations contained herein.

City of Fayetteville
April 1, 2025
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AGREED TO AND ACKNOWLEDGED BY:

PBMares, LLP

A handwritten signature in blue ink, appearing to read "R. Bittner III".

Robert E. Bittner III, CPA, MBA
Partner

Confirmed on behalf of City of Fayetteville:

Mitch Colvin, Mayor

Douglas J. Hewett, City Manager

Jeffrey Yates, Interim Chief Financial Officer



Report on the Firm's System of Quality Control

To the Partners of
PBMares, LLP
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of PBMares, LLP (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended February 28, 2023. 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. The summary also includes an explanation of how engagements identified as not performed or reported on 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 and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of 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 on in conformity with the requirements of the applicable 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 and compliance with the firm's system of quality control based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including a compliance audit under the Single Audit Act; audits of employee benefit plans and examinations of service organizations (SOC 1[®] and SOC 2[®] engagements).

As a 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.

NASHVILLE
615-242-7351

555 Great Circle Road
Nashville, TN 37228

CHATTANOOGA
423-894-7400

6136 Shallowford Road, Suite 101
Chattanooga, TN 37421

COLUMBIA
931-388-3711

610 North Garden Street, Suite 200
Columbia, TN 38401

LEBANON
615-449-2334

105 Bay Court
Lebanon, TN 37087

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of PBMares, LLP applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended February 28, 2023, 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*. PBMares, LLP has received a peer review rating of *pass*.

A handwritten signature in black ink that reads "KraftCPAs PLLC". The script is cursive and fluid, with the "K" being particularly large and stylized.

KraftCPAs PLLC

January 30, 2024