

Les Baugh
County Member

Irwin Fust
Special District Alternate



Brent Weaver
City Member

Dick Fyten
Public Member

Larry Farr
City Member

Pam Giacomini
County Member Alternate

David Kehoe
County Member

Bob Richardson
Public Member Alternate

James Yarbrough
City Member Alternate

Brenda Haynes
Special District Member

Stephen Morgan
Special District Member

James M. Underwood
Interim Executive Officer

Thursday, October 1, 2015

Re: Financial Audit Services (Item # 9a)

Commissioners:

Background

In June the Commission authorized the distribution of a Request for Proposals (RFP) for audit services. At its August meeting the Commission directed staff to negotiate and present a proposed agreement for such services with Donald R. Reynolds, CPA, to perform a compilation level of review for FY 2013-14 and a more complete audit for FY 2014-15. Such an agreement is now being presented for Commission consideration.

Discussion

Shasta LAFCO Policy 2.3.2 provides that audits may occur annually or bi-annually as the Commission determines. The proposed agreement for Mr. Reynold's services would be consistent with that policy. The cost for the compilation and audit services, as described in the proposed agreement, would be \$9,500, consistent with the adopted FY 2015-16 Final Budget appropriation of \$10,000 for such services.

Conclusion & Recommendations

Based on the foregoing it is recommended that the Commission approve and authorize the Chairman to sign the proposed audit services agreement with Donald R. Reynolds, CPA.

Sincerely,

James M. Underwood,
General Counsel/Interim Executive Officer

Attachment

**AGREEMENT
FOR
AUDIT SERVICES**

PREAMBLE

WHEREAS, the Local Agency Formation Commission of Shasta County ("LAFCO") desires to contract for auditing of LAFCO's financial statements for the fiscal years ending June 30, 2013; June 30, 2014; and June 30, 2015; and,

WHEREAS, the firm of Donald R. Reynolds, Certified Public Accountant ("FIRM") is particularly qualified to perform the desired services due to its public accountant competence and expertise;

NOW, THEREFORE, LAFCO and FIRM agree as follows:

AGREEMENT

1. **PERIOD OF PERFORMANCE**

This Agreement shall be for the period beginning October 1, 2015 until completion of audit services or until this Agreement is terminated pursuant to Paragraph 5.

2. **PERFORMANCE OF AUDIT SERVICES: WARRANTIES**

FIRM shall perform audit services and represent LAFCO to the best of FIRM's ability and in a professional manner. FIRM warrants that at all times during the term of this Agreement, the member of the FIRM providing audit services for LAFCO shall remain a member in good standing of the California Board of Accountancy, and shall maintain liability insurance covering his work on behalf of LAFCO.

3. **COMPENSATION/WORK SCOPE**

- A. Fiscal Year 2013/2014: LAFCO Agrees to compensate FIRM for Compilation Services to LAFCO for the year ending June 30, 2014, at a fixed rate of \$2,000.00, consistent with the engagement letter from FIRM attached as Exhibit A and incorporated herein by reference.
- B. Fiscal Year 2014/2015: LAFCO Agrees to compensate FIRM for Full Audit Services to LAFCO for the year ending June, 30, 2015 at a fixed rate of \$7,500.00, consistent with the engagement letter from FIRM attached as Exhibit B and incorporated herein by reference.

4. **BILLINGS AND PAYMENTS**

- A. **Billings**: Firm shall submit it's itemized billing statement monthly to LAFCO. The original billing statement and one copy shall be submitted to:

Shasta LAFCO
2516 Goodwater Avenue, Suite A
Redding, CA 96002

Each billing shall be in a time reporting format acceptable to LAFCO, and shall include original invoices for reimbursement of expenses. FIRM understands that LAFCO will not process claims for expenses unless accompanied by an original invoice.

FIRM shall have and maintain all backup documentation to support all entries included in the monthly billing statement. Such documentation shall be in a form subject to audit and in accordance with generally accepted accounting principles. FIRM shall make such documentation available to auditors upon request.

- B. **Payments**: LAFCO shall review all billing statements submitted by FIRM. LAFCO shall make its best effort to process payments promptly after receiving FIRM's billing statement. LAFCO shall not pay interest or finance charges on any outstanding balance(s).

5. **TERMINATION**

This Agreement may be terminated in whole or in part at any time if LAFCO, in its sole discretion, deems termination to be in its best interest. LAFCO shall terminate services by delivering to FIRM a written Termination Notice specifying the extent to which services are terminated and the effective termination date. FIRM may terminate on sixty (60) days notice. During the sixty (60) day notice period, FIRM shall, at LAFCO's request, transfer pending files or complete specified services, which may include a final report.

6. **NOTICES**

All notices and required reports shall be written and hand-delivered or mailed by first class, postage prepaid, addressed to LAFCO or FIRM at the address below, or at any other address LAFCO or FIRM shall provide in writing to each other:

If to LAFCO

Shasta LAFCO
2516 Goodwater Avenue, Suite A
Redding, CA 96002

If to FIRM

Donald R. Reynolds
Certified Public Accountant
1438 Oregon Street
Redding, CA 96001

7. ASSIGNMENT

No part of this Agreement or any right or obligation arising from it is assignable without LAFCO's written consent. However, FIRM may retain consultants and experts as FIRM deems appropriate after receiving LAFCO's written approval.

8. STANDARD TERMS AND CONDITIONS

A. Indemnification: FIRM shall indemnify, defend, and save harmless LAFCO, its agents, officers and employees from and against any and all liability expense, including defense costs and legal fees, and claims for damages of any nature whatsoever, including, but not limited to losses resulting from FIRM's errors or omissions or any bodily injury, death, personal injury, or property damage (including FIRM's property), in connection with FIRM's operations or its services, including any workers' compensation suits, liability or expense, arising from or connected with services performed under this Agreement.

B. Insurance: Without limiting FIRM's indemnification of LAFCO, FIRM shall provide and maintain at its own expense during the term of this Agreement programs of insurance covering its operations. FIRM shall deliver evidence of a satisfactory insurance program to LAFCO on or before the effective date of this Agreement. Such insurance shall be primary to and not contributing with any other insurance maintained by LAFCO, and shall include, but not be limited to:

1. Comprehensive General Liability Insurance endorsed for Premises/Operations, Products/Completed Operations, Contractual, Broad Form Property Damage, and Personal Injury with a combined single limit of not less than \$1,000,000 per occurrence.

If the above insurance is written on a Claims Made Form, the insurance shall be endorsed to provide an extended reporting period of not less than five (5) years following termination of this Agreement.

2. Professional liability insurance with a liability limit of at least \$1,000,000 per claim.

C. Independent Contractor Status: This Agreement is between LAFCO and FIRM, and is not intended and shall not be constructed to create the relationship of agent, servant, employee, partnership, joint venture, or association as between LAFCO and FIRM. FIRM understands and agrees that all FIRM personnel furnishing services to LAFCO under this Agreement are employees solely of FIRM and not of LAFCO for purposes of workers' compensation liability. FIRM shall bear the sole responsibility and liability for furnishing workers' compensation benefits to any FIRM personnel for injuries arising from services performed under this Agreement.

SHASTA LAFCO

WITNESSETH

IN WITNESS WHEREOF, LAFCO and FIRM have executed this Agreement on the day and year set forth below:

LAFCO

FIRM

Stephen Morgan, Chairman



Donald R. Reynolds

Date: _____

Date: 9/22/15

Attest:

James M. Underwood, Interim Executive Officer

Date: _____

EXHIBIT A

Donald R. Reynolds

Certified Public Accountant

August 27, 2015

Board of Directors
Shasta LAFCO
2516 Goodwater Ave., Suite A
Redding, CA 96002

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

Compilation Services

year ended June 30, 2014

We will compile, from information you provide, the annual balance sheets and related statements of income, retained earnings, and cash flows of Shasta LAFCO for the ~~years ended June 30, 2013 and 2014~~, and will issue an accountant's report on such financial statements in accordance with the "compilation standards" as set forth in the Statements on Standards for Accounting and Review Services (SSARSS) issued by the American Institute of Certified Public Accountants (AICPA) and applicable ethical principles established by the AICPA's Code of Professional Conduct.

The objective of a compilation is to prepare financial statements in accordance with the financial reporting framework you select, based on information provided by you, and to apply accounting and financial reporting expertise to assist you in the presentation of the financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with that framework. It is our understanding that you have selected accounting principles generally accepted in the United States of America (U.S. GAAP) as your financial reporting framework and, as such, that is the framework we will use for this engagement.

A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical review procedures, or other procedures performed in a review. Consequently, the information provided by management will not be verified, corroborated, reviewed, or audited. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Therefore, a compilation does not provide a basis for expressing any level of assurance on the financial statements being compiled. Because we are performing our compilation work as accountants rather than as auditors, Shasta LAFCO should not record or describe our services as an "audit" or "auditing" in its minutes or books of record.

Our engagement cannot be relied upon to disclose errors, fraudulent financial reporting, misappropriation of assets, or illegal acts that may have occurred. However, we will inform the appropriate level of management of any material errors and of any evidence or information that comes to our attention during the performance of our engagement that fraud may have occurred.

We will also report to the appropriate level of management any evidence or information that comes to our attention regarding any potential illegal acts that may have occurred, unless they are clearly inconsequential.

Donald R. Reynolds, CPA (The Firm) is the engagement principle for the compilation services specified in this letter. His responsibilities include supervising the Firm's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the compilation report. In performing our services, The Firm will comply with the AICPA's Code of Professional Conduct, which includes the ethical principles applicable to the services we have agreed to perform.

Responsibilities of Management

Management is responsible for providing us with access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, as well as additional information we may request for this engagement. Management will also provide us with unrestricted access to persons within the entity with whom we determine it necessary to communicate. By your signature below, you understand and agree that management is responsible for the accuracy and completeness of the records, documents, explanations, and other information provided to us, including management's significant judgments impacting the preparation and fair presentation of the financial statements.

As outlined in this letter, we may assist in the preparation of your financial statements and we may advise you about appropriate accounting principles and their application, but the final responsibility for the preparation and fair presentation of the financial statements in accordance with the financial reporting framework you selected, U.S. GAAP, remains with you. Also, as part of our engagement, we may propose standard, adjusting, or correcting journal entries to your financial statements. Management, however, has final responsibility for reviewing and accepting the proposed entries and understanding the nature and impact of the proposed entries to the financial statements.

By your signature below, you acknowledge that you are also responsible for all management decisions and responsibilities including designating qualified individuals with the suitable skills, knowledge and experience to be responsible and accountable for overseeing the preparation and fair presentation of your financial statements and any other nonattest services performed as part of this engagement. This includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; as well as identifying and ensuring that the organization complies with the laws and regulations applicable to its activities. We will have no responsibility to identify and communicate deficiencies in your internal control as part of this engagement. Your signature below further acknowledges that you understand and agree that you are responsible for preventing and detecting fraud.

Management is also responsible for the design, implementation and administration of applicable policies that may be required under the Affordable Care Act. As Firm is not rendering any legal services as part of our engagement, we will not be responsible for advising you with respect to the legal or regulatory aspects of your company's compliance with the Affordable Care Act.

Written Report

As part of our engagement, we will issue a report that will state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them.

If, for any reason, we are unable to complete the compilation of your financial statements, we will not issue a report on such statements as a result of this engagement.

Our report on the annual financial statements of Shasta LAFCO is expected to read as follows:

Management is responsible for the accompanying financial statements of Shasta LAFCO, which comprise the balance sheet as of December 31, 2013 and 2014, and the related statements of income, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

If management elects to omit substantially all disclosures, we will include an additional paragraph that will read as follows:

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

Other Matters

Our fees for this work will be at our regular hourly rates for the individuals involved plus direct out-of-pocket expenses. Payment for services is due when the services are rendered, and interim billings may be submitted as work progresses and expenses are incurred.

Our fees and completion of our work is based upon anticipated cooperation from Shasta LAFCO's personnel; timely responses to our inquiries; timely communication of all significant accounting, financial, and internal control matters; and the assumption that unexpected circumstances will not be encountered during the engagement.

In addition, in the event our firm or any of its employees or agents is called as a witness or requested to provide any information whether oral, written or electronic in any judicial, quasi-judicial, or administrative hearing or trial regarding information or communications that you have provided to this firm, or any documents and workpapers prepared by the Firm in accordance with the terms of

this agreement, you agree to pay any and all reasonable expenses including fees and costs for our time at the rates specified in our engagement letter, as well as any legal or other fees that we incur as a result of such appearance or production of documents.

Billings become delinquent if not paid within 60 days of the invoice date. If billings are past due in excess of 60 days, at our election, we may stop all work until your account is brought current or withdraw from this engagement. Shasta LAFCO acknowledges and agrees that we are not required to continue work in the event of Shasta LAFCO's failure to pay on a timely basis for services rendered as required by this engagement letter. Shasta LAFCO further acknowledges and agrees that in the event we stop work or withdraw from this engagement as a result of Shasta LAFCO's failure to pay on a timely basis for services rendered as required by this engagement letter, we will not be liable for any damages that occur as a result of our ceasing to render services.

In connection with this engagement, we may communicate with you or others via email transmission. We take reasonable measures to secure your confidential information in our email transmissions, including password protecting confidential documents. However, as email can be intercepted and read, disclosed, or otherwise used or communicated by an unintended third party, or may not be delivered to each of the parties to whom it is directed and only to such parties, we cannot guarantee or warrant that email from us will be properly delivered and read only by the addressee. Therefore, we specifically disclaim and waive any liability or responsibility whatsoever for interception or unintentional disclosure or communication of email transmissions, or for the unauthorized use or failed delivery of email transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage to any person or entity resulting from the use of email transmissions, including any consequential, incidental, direct, indirect, or special damages, such as loss of sales or anticipated profits, or disclosure or communication of confidential or proprietary information.

It is our policy to keep records related to this engagement for three years. However, the Firm does not keep any original client records, so we will return those to you at the completion of the services rendered under this engagement. When records are returned to you, it is your responsibility to retain and protect your records for possible future use, including potential examination by any government or regulatory agencies.

By your signature below, you acknowledge and agree that upon the expiration of the three-year period the Firm shall be free to destroy our records related to this engagement.

If any dispute arises among the parties hereto, the parties agree to first try in good faith to settle the dispute by mediation administered by the National Mediation Association under its applicable rules for resolving professional accounting and related services disputes before resorting to litigation. The costs of any mediation proceeding shall be shared equally by all parties.

Client and accountant 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 applicable rules for resolving professional accounting and related services disputes of the National Mediation Association, except that under all circumstances the arbitrator must follow the laws of California. Such arbitration shall be binding and final. 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. The prevailing party shall be entitled to an award of reasonable attorneys' fees and costs incurred in connection with the arbitration of the dispute in an amount to be determined by the arbitrator.

I appreciate the opportunity to be of service to Shasta LAFCO and believe this letter accurately summarizes the significant terms of my engagement. If you have any questions, please let me know. If you agree with the terms of my engagement as described in this letter, please sign the enclosed copy and return it to me.

Very truly yours,



Donald R. Reynolds, CPA

RESPONSE:

This letter correctly sets forth the understanding of Shasta LAFCO.

By: _____

Title: _____

Date: _____

EXHIBIT B

Donald R. Reynolds

Certified Public Accountant

August 27, 2015

Board of Directors
Shasta LAFCO
2516 Goodwater Ave., Suite A
Redding, CA 96002

I am pleased to confirm my understanding of the services I am to provide Shasta LAFCO for the Year ended June 30, 2015. I will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the entity's basic financial statements, of Shasta LAFCO as of and for the Year ended June 30, 2015. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to accompany Shasta LAFCO's basic financial statements. As part of our engagement, we will apply certain limited procedures to Shasta LAFCO's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's discussion and analysis
2. Budgetary comparison schedules

Audit Objectives

The objective of my audit is the expression of an opinion as to whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the financial statements taken as a whole. My audit will be conducted in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States, and will include tests of the accounting records of Shasta LAFCO and other procedures I consider necessary to enable me to express such an opinion. If my opinion on the financial statements is other than unqualified, I will fully discuss the reasons with you in advance. If, for any reason, I am unable to complete the audit or am unable to form or have not formed an opinion, I may decline to express an opinion or to issue a report as a result of this engagement.

I will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements as required by Governmental Auditing Standards. This report will include a statement that the report is intended solely for the information and use of the board of directors, management, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than

these specified parties.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audit, we will prepare a draft of your financial statements and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Shasta LAFCO and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that 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.

You are responsible for 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 government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions.

Audit Procedures - General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, my audit will involve judgment about the number of transactions to be examined and the areas to be tested. I will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because I will not perform a detailed examination of all transactions, there is a risk that a material misstatement may exist and not be detected by me. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, I will inform you of any material errors that come to my attention, and I will inform you of any fraudulent financial reporting or misappropriation of assets that comes to my attention. I will also inform you of any violations of laws or governmental regulations that come to my attention, unless clearly inconsequential. My responsibility as auditor is limited to the period covered by my audit and does not extend to matters that might arise during any later periods for which I am not engaged as auditor.

My procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. I will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of my audit, I will also require certain written representations from you about the financial statements and related matters.

Audit Procedures - Internal Control

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Shasta LAFCO's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Audit Administration, Fee, and Other

I understand that your employees will prepare all cash or other confirmations I request and will locate any invoices selected by me for testing.

The audit documentation for this engagement is the property of Donald R. Reynolds, CPA and constitutes confidential information. However, pursuant to authority given by law or regulation, I may be requested to make certain audit documentation available to federal agency providing direct or indirect funding, or the U.S. General Accounting Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. I will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Donald R. Reynolds, CPA personnel. Furthermore, upon request, I may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

I expect to begin my audit on approximately August 1, 2015 and to issue my reports no later than December 31, 2015.

My fee for these services will be at my standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.) except that I agree that my gross fee, including expenses will not exceed \$2,000. My standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. My invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with my firm policies, work may be suspended if your account becomes 60 days or more overdue and may not be resumed until your account is paid in full. If I elect to terminate my services for nonpayment, my engagement will be deemed to have been completed upon written notification of termination, even if I have not completed my report. You will be obligated to compensate me for all time expended and to reimburse me for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, I will discuss it with you and arrive at a new fee estimate before I incur the additional costs.

Government Auditing Standards require that I provide you with a copy of my most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. My 2011 peer review report and letter of comments accompanies this letter.

I appreciate the opportunity to be of service to Shasta LAFCO and believe this letter accurately summarizes the significant terms of my engagement. If you have any questions, please let me know. If you agree with the terms of my engagement as described in this letter, please sign the enclosed copy and return it to me.

Very truly yours,



Donald R. Reynolds, CPA

RESPONSE:

This letter correctly sets forth the understanding of Shasta LAFCO.

By: _____

Title: _____

Date: _____