

Attachment 4-G Example Engagement Letter (Projects 24 Units or more)

Date, Year

Name

Company Name

Address

City, State Zip

We are pleased to confirm our understanding of the nature and limitations of the services our firm will provide for each of the Entities detailed in Exhibit B.

We will perform an audit of the balance sheet as of **DATE, YEAR**, and the related statements of operations, changes in partners' equity and cash flows for the year then ended. Also, the supplementary financial information required by the *United States Department of Agriculture RD Handbook HB-2-3560* listed below will be subjected to the auditing procedures applied in our audit of the financial statements:

- Calculation of Management Fee
- Return to Owner
- Insurance Detail

The objective of our audit is the expression of an opinion about whether the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements taken as a whole. The objective also includes reporting on each Entity's internal controls and its compliance with certain provisions of laws, regulations, contracts, and grant agreements in conformity with auditing standards generally accepted in the United States of America and as required by *Government Auditing Standards* and the *United States Department of Agriculture RD Handbook HB-2-3560*. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America, the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *United States Department of Agriculture RD Handbook HB-2-3560*.

Our audit will include tests of the accounting records of each Entity and other procedures we consider necessary to enable us to express such an opinion and render the required reports. If our opinion is other than unqualified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

The report on internal control and compliance will include a statement that the report is intended for the information and use of the partner, management, others within the organization and the United States Department of Agriculture Rural Development, and is not intended to be and should not be used by anyone other than these specified parties.

The management of each Entity is responsible for establishing and maintaining effective internal control and for compliance with the provisions of applicable laws, regulations, contracts, and grant agreements. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that Rural Development programs are managed in compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

In planning and performing our audits, we will consider the internal control sufficient to plan each audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinions on the Entity's financial statements and on its compliance with specific requirements applicable to its Rural Development programs and to report on the internal control in accordance with the provisions of *Government Auditing Standards* and not to provide any assurance on the internal control.

We will obtain an understanding of the design of relevant controls and whether they have been placed in operation, and we will assess control risk. Tests of controls may be performed to test the effectiveness of certain controls 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. (Tests of controls are required only if control risk is assessed below the maximum level.) 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*.

We will perform tests of controls over compliance, as required by *Government Auditing Standards* and the *United States Department of Agriculture RD Handbook HB-2-3560*, to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with specific requirements applicable to each Entity's Rural Development programs.

Our tests will be less in scope than would be necessary to render an opinion on these controls and accordingly, no opinion will be expressed.

Our audit will include obtaining an understanding of internal control sufficient to plan each audit and to determine the nature, timing, and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to you internal control related matters that are required to be communicated under professional standards.

Identifying and ensuring that each Entity complies with laws, regulations, contracts, and grant agreements is the responsibility of management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of each Entity's compliance with applicable laws and regulations, and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion.

Our audits will be conducted in accordance with the standards referred to in the third paragraph. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether material noncompliance with the requirements described in the *United States Department of Agriculture RD Handbook HB-2-3560* that are applicable to its Rural Development programs occurred. The purpose of each audit will be to express an opinion on each Entity's compliance with specific requirements applicable to major programs listed in the previous sentence.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the account, and may include direct confirmation of cash, investments, loan balances, and certain other assets and liabilities by correspondence with certain individuals, creditors and financial institutions. We may also request written representations from your attorneys as part of each engagement, and they may bill you for responding to that inquiry. At the conclusion of each engagement, we will require a written representation letter from the owner and or management of each specific Entity that, among other things, will confirm management's responsibility for the presentation of the financial statements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audits will involve judgment about the number of transactions to be examined and the areas to be tested. Also, we will plan and perform the audits to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to each Entity or to acts by management or employees on behalf of each Entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse. As required by *Government Auditing Standards*, our audits will include tests of transactions related to federal awards programs for compliance with applicable laws and regulations and the provisions of contracts and agreements.

Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or

noncompliance may exist and not be detected by us. 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 or on major programs. However, we will inform you, of any material errors and any fraudulent financial reporting or misappropriation of assets that comes to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for Rural Development audits. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

You are 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 financial position, changes in partners' capital, and cash flows in conformity with accounting principles generally accepted in the United States of America. You are also responsible for management decisions and functions; for designating a management-level individual with suitable skill, knowledge, or experience to oversee the tax services and any other non-attest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them. As part of our engagements:

We will not perform any management functions or make management decisions.

We will assist you and/or management in the calculation of depreciation expense and maintenance of fixed asset and depreciation records, however, you and/or management shall be responsible for determining the depreciation method, rate and life of each class of assets and determining salvage value, if any. You and/or management shall be solely responsible for the completeness and accuracy of the related fixed asset and depreciation schedules.

We will prepare a general ledger trial balance for use during each engagement. Our preparation of the trial balance will be limited to formatting information in the respective Entity's general ledger into a working trial balance.

We will also prepare federal, state and local income tax returns for the Entities listed in the attached Exhibit B for the year ended **DATE, YEAR**. You are responsible for the decisions and functions of your property, and for designating a competent employee to oversee these services. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for the results. You are also responsible for establishing and maintaining internal controls, including monitoring ongoing activities. You should be aware that, under the Internal Revenue Service Restructuring and Reform Act of 1998, certain information discussed by you with members of our firm who are authorized tax practitioners or their agents for the purpose of obtaining our firm's advice on tax matters is privileged from disclosure in any non-criminal tax matters before the IRS. Information compiled for the purpose of preparing a tax return is not privileged under common law because it is intended for disclosure to the IRS or others. The privilege will be waived if the communication is voluntarily disclosed to a third party. Professional standards require us to discuss matters that may

affect the engagement with our firm personnel responsible for non-attest services, which includes tax services. The IRS might not take the position that such communication results in a waiver of privilege.

Management is responsible for making all financial records and related information available to us, including any significant vendor relationships in which the vendor has the responsibility for program compliance. We understand that you will provide us with such information required for each audit and that you are responsible for the accuracy and completeness of that information. Management's responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is 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 or illegal acts or illegal acts affecting each Entity involving management, employees who have significant roles in internal control, and 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 or illegal acts affecting each Entity received in communications from employees, former employees, regulators, or others. In addition, management is responsible for identifying and ensuring that each Entity complies with applicable laws and regulations and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

As part of each audit, we will prepare a draft of your financial statements, supplementary financial information, and related notes. In accordance with *Government Auditing Standards*, you will be required to review and approve those financial statements prior to their issuance and have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements. Further, you are required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

We will apply the agreed-upon-procedures which you and United States Department of Agriculture Rural Development personnel have specified as listed in the attached Exhibit A, to information included in Forms RD 3560-7 and 3560-10. These engagements are solely to assist the Owners and Rural Development in evaluating that Forms RD 3560-7 and 3560-10 are prepared in accordance with the criteria specified in 7 CFR Part 3560, Section 303(b) and Section 306 in accordance with the determinations noted in Attachment 4-D of RD Handbook HB-2-3560, for the year ending ***DATE***, ***YEAR***.

Our engagement to apply agreed-upon procedures will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the

sufficiency of the procedures described in Exhibit A either for the purpose for which this report has been requested or for any other purpose. If, for any reason, we are unable to complete procedures for a particular project(s), we will describe any restrictions on the performance of the procedures in our respective report, or will not issue a report as a result of this specific engagement.

Because the agreed-upon procedures listed in Exhibit A do not constitute an examination, we will not express an opinion on the completeness of these procedures. In addition, we have no obligation to perform any procedures beyond those listed in Exhibit A.

We will submit our report for each of the Entities in Exhibit B listing the procedures performed and our findings. Each report is intended solely for the use of the project's owners, the management agent and Rural Development, and should not be used by anyone other than these specified parties, and take responsibility for the sufficiency of the procedures for their purposes. Our reports will contain a paragraph indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

At the conclusion of each engagement, we will require a representation letter from the owner and or management of each specific Entity that, among other things, will confirm management's responsibility for the presentation of Forms RD 3560-7 and 3560-10 in accordance with the criteria specified in 7 CFR part 3560 Section 303(b) and 7 CFR part 3560 Section 306, in accordance with the determinations noted in Attachment 4-D of the RD Handbook HB-2-3560, for the year ending DATE, YEAR and management's responsibility for compliance with the requirements of 7 CFR part 3560 Sections 308(a), 308(b) and 308(c).

During the course of each engagement, we shall request information and explanations from the owner and/or management regarding the respective Entity's operations, internal controls, compliance matters, future plans, specific transactions, and accounting system and procedures. We understand that your employees will prepare all cash, vendor, accounts payable and other confirmations we request and will work with our staff to locate any documents selected by us for testing. We will request written confirmation from financial institutions as part of each engagement, and they may bill you for responding to that inquiry.

At the conclusion of each engagement, we will require, as a precondition to the issuance of our report, that management reconfirm this information in a written representation letter. The procedures which we will perform in each engagement will be heavily influenced by the representations that we receive from you and/or management. Accordingly, false representations could cause us to expend unnecessary efforts or could cause a material error or a fraud to go undetected by our procedures. You acknowledge that as a condition of our agreement to perform each engagement, you and all members of your management, agree to the best of your knowledge and belief to be truthful, accurate, and complete in the representations you make to us during the course of each engagement and in the written representations provided to us at the completion of each engagement. In view of the foregoing, you agree that we shall not be responsible for any misstatements in the financial and compliance reports as a result of false or misleading representations that are made to us by you or your management. In addition, because our

failure to detect material misstatements could cause others relying upon our report to incur damages, you and management further agree to indemnify and hold us harmless for any liability and all reasonable costs (including legal fees) that we may incur in connection with claims based upon our failure to detect material misstatements in the respective Entity's financial and compliance reports resulting from false or misleading representations made to us by you or any member of your management.

Management is also responsible to notify us in advance of your intent to print our reports in whole or in part, and to give us the opportunity to review any printed material containing our reports before its issuance.

The documentation for these engagements is the property of **CPA FIRM NAME** and constitutes confidential information. However, we may be requested to make certain documentation available to the United States Department of Agriculture acting through Rural Development, the Office of Inspector General ("OIG") and the Government Accountability Office ("GAO") or their representatives, pursuant to authority given to them by law or regulation. We will notify you of any such request. If requested, access to such documentation will be provided under the supervision of **CPA FIRM NAME** personnel. Furthermore, upon request, we may provide copies of selected documentation to Rural Development, OIG or GAO representatives. Rural Development, OIG and GAO may intend, or decide to distribute the copies or information contained therein to others, including other governmental agencies. We may also be requested to make certain documentation available to the investment partner(s)/member(s) or their representatives pursuant to authority given to them by the Partnership/Operating Agreement. Access to such documentation will be provided under the supervision of **CPA FIRM NAME**. Furthermore, upon request, we may provide photocopies of selected documentation to the investment partner(s)/member(s) or their representatives and they may intend, or decide to distribute the photocopies or information contained therein to others, including governmental agencies.

Each engagement ends on delivery of our financial and compliance reports. Any follow-up services that might be required will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

Our fees for these services are based upon the actual time spent at our standard hourly rates, travel, and other out-of-pocket costs such as report production, word processing, postage, etc. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to each engagement. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes XX days or more overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, each engagement will be deemed to have been completed even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination. The suspension or termination of our work may result in adverse consequences to you including your failure to meet deadlines imposed by governments, lenders, or other third parties. You agree that we will not be responsible for your failure to meet such deadlines, or for penalties or interest that may be assessed against you resulting from such failure. Based on our preliminary estimate,

the audit, tax and agreed-upon procedures fees will be as detailed in Exhibit B. The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagements. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

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

We appreciate the privilege and opportunity to work with you and your staff during the completion of these important engagements. If the engagement letter terms are acceptable and in accordance with your understanding of each engagement, please sign the attached agreement and return the signed agreement page. Please retain the original letter and the client copy of the agreement page for your files. If you have any questions or comments regarding the terms of this engagement letter, please do not hesitate to contact us.

Very truly yours,

CPA FIRM NAME
Certified Public Accountants

EXHIBIT A

Schedule of Agreed-Upon Procedures:

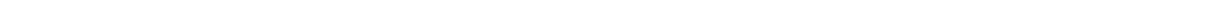
- 1.) Examine selected receipts, invoices, cancelled checks, (or check imaging on original bank statement) etc. that support administrative; and operating and maintenance expenses presented on Form RD 3560-7, Part II, line items 1-10 and 19-32 to determine they were incurred as part of the ongoing operations of the project.
- 2.) Confirm the balance in the replacement reserve account presented on Form RD 3560-7, Part III and confirm that no amounts were encumbered by the financial institution that holds the accounts. Determine that all balances are within the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC) insurance limits, as applicable. Determine that the total withdrawals from the bank statements agree to the total withdrawals authorized by Rural Development on Form RD 3560-12. Compare the invoices and cancelled checks (or check imaging on original bank statement) to the approved withdrawals.
- 3.) Obtain an Identity of Interest (IOI) company listing and Form RD 3560-31 from Rural Development and determine that the services provided and approved fees, if applicable, agree to the actual service and fees charged to the project.

EXHIBIT B

**Entity and Fee Schedule
Year End DATE, YEAR**

ENTITY NAME

FEE AMOUNT



CPA FIRM NAME SERVICE AGREEMENT

Agreement to report on Rural Development Financial and Compliance Reports and prepare Federal, State & Local tax reporting forms for the Entities listed in the attached Exhibit B managed by Company Name as outlined in the CPA FIRM NAME engagement letter dated Date, Year.

To accept the schedule of fees in Exhibit B and the terms as stated in the attached engagement letter:

- Sign below,
- Return this page to us,
- Retain the original engagement letter and the client copy of this letter for your files.

By: _____ Date: _____
(Signature)

(Name, Printed)

(Title)

Client Copy

CPA FIRM NAME SERVICE AGREEMENT

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EXHIBIT A
Schedule of Agreed-Upon Procedures:

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- 2.) Confirm the balance in the replacement reserve account presented on Form RD 3560-7, Part III and confirm that no amounts were encumbered by the financial institution that holds the accounts. Determine that all balances are within the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC) insurance limits, as applicable. Determine that the total withdrawals from the bank statements agree to the total withdrawals authorized by Rural Development on Form RD 3560-12. Compare the invoices and cancelled checks (or check imaging on original bank statement) to the approved withdrawals.
- 3.) Obtain an Identity of Interest (IOI) company listing and Form RD 3560-31 from Rural Development and determine that the services provided and approved fees, if applicable, agree to the actual service and fees charged to the project.

EXHIBIT B

**Entity and Fee Schedule
Year End DATE, YEAR**

ENTITY NAME

FEE AMOUNT

