



Audit Engagement Letter

April 17, 2012

The Honorable City Council of the
City of Guadalupe
Guadalupe Community Redevelopment Agency
C/O: Regan Candelario
918 Obispo Street
Guadalupe, California 93434

We are pleased to confirm our understanding of the services we are to provide Guadalupe Community Redevelopment Agency for the period ended January 31, 2012. We will audit the statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of Guadalupe Community Redevelopment Agency as of and for the period ended January 31, 2012. 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 supplement Guadalupe Community Redevelopment Agency's basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to Guadalupe Community Redevelopment Agency's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. 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 Schedule – Budget and Actual – Major Special Revenue Funds

SAN LUIS OBISPO
1150 Palm Street
San Luis Obispo, CA 93401
p 805 544 1441
f 805 544 4351

PASO ROBLES
102 South Vine Street, Ste. A
Paso Robles, CA 93446
p 805 237 3995
f 805 239 9332

SANTA MARIA
2222 South Broadway, Ste. A
Santa Maria, CA 93454
p 805 922 4010
f 805 922 4286

We have also been engaged to report on supplementary information other than RSI that accompanies the City of Guadalupe's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole:

1. Combining and Individual Fund Statements and Schedules

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic 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 supplementary information referred to in the second paragraph when considered in relation to the financial statements taken as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and will include tests of the accounting records of Guadalupe Community Redevelopment Agency and other procedures we consider necessary to enable us to express such opinions. If our opinions on the financial statements are other than unqualified (unmodified), we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and compliance will include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties. If during our audit we become aware that Guadalupe Community Redevelopment Agency is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those

charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

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 assist with preparation 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 written representation letter our assistance with preparation of the financial statements and 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 effective internal controls, including evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; 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, each major fund, and the aggregate remaining fund information of the Guadalupe Community Redevelopment Agency 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 ensuring that management is reliable and financial information is reliable and properly recorded. You are also responsible for providing us with (1) access to all information for which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the written 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.

You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (a) you are responsible for the presentation of the supplementary information in accordance with GAAP; (b) that you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (c) that the methods of measurement or presentation have not changed in the prior period (or, that they have changed, the reasons for such changes); and (d) you have disclosed to use any significant assumptions or interpretations underlying the measurement of presentation of the supplementary information.

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, attestation engagements, performance audits or other 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, attestation engagements, performance audits, or other studies. You are also responsible for providing management's views on our

current findings, conclusions, and recommendations, as well as your planned corrective actions, and for the timing and format for providing that information.

With regard to electronic dissemination of audited financial statements, including financial statements electronically on your website, you understand that electronic sites are means to distribute information and, therefore, we are not required to read the information contained on these sites or consider the consistency of other information in the electronic site with the original document. You agree to indemnify Glenn Burdette from any and all claims that may arise from any differences between the electronic version of the financial statements and audit report presented on your web site, now and in the future, and the signed version of the financial statements and audit report provided to management by Glenn Burdette.

Audit Procedures - General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) 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 of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted accounting standards and *Government Auditing Standards*. 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, we will inform the appropriate level of management of any material errors or any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

Our 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, funding sources, creditors, and financial institutions. We 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 our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures - Internal Controls

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 or material weaknesses. 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 Guadalupe Community Redevelopment Agency'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*.

The Honorable City Council of the City of Guadalupe
Guadalupe Community Redevelopment Agency
April 17, 2012
Page 7

Timing of Engagement

We will work with management to determine mutually agreed upon fieldwork dates. The timing of our work is dependent on the timely receipt of the information we request from you.

We ask that you inform us as soon as possible if you will not be ready on the date(s) agreed upon. If you request that we reschedule our fieldwork, we will do our best to accommodate the changes. However, we cannot guarantee timely completion due to other previously scheduled engagements.

Audit Administration, Fees, and Other

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

We will provide copies of our reports to you; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Glenn Burdette and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to Guadalupe Community Redevelopment Agency's cognizant agency or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Glenn Burdette personnel. Furthermore, upon request, we 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.

It is our policy to keep records related to this engagement for seven (7) years after the report release or for any additional period requested by Guadalupe Community Redevelopment Agency's cognizant agency. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation. However, we do 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 seven (7) year period, Glenn Burdette shall be free to destroy our records related to this engagement.

Allen E. Eschenbach is the engagement partner and is responsible for supervising the engagement and signing or authorizing another qualified firm representative to sign the report.

Our fee for the audit services will be based on the actual time spent at our standard hourly rates, plus travel and other out-of-pocket costs such as report production, typing, postage, etc. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. In the event of a change in the scope of our audit resulting from any changes in facts and circumstances, we will discuss any additional fees with you as soon as is reasonably possible after we become aware of the change.

You understand that services may be provided by a non- licensee owner of the firm. Payment for service is due when rendered and interim billings may be submitted as work progresses and expenses are incurred. We reserve the right to stop work on any account that is 60 days past due, in accordance with our firm's stated collection policy. You acknowledge and agree that we are not required to continue work in the event of failure to pay on a timely basis for services rendered as required by this engagement letter. We shall not be liable to you for any damages that occur as a result of our ceasing to render services. Any past due fee under this agreement shall bear late charges at the rate of 1.5 percent per month (18.00 annual percentage rate) on any unpaid balance.

Any work performed during the audit will be billed at our standard hourly rates. These are currently as follows:

Principal *	\$300 – 400/hour	Human Resources	\$140/hour
Senior Manager	225/hour	Collection Services	140/hour
Manager	200/hour	Professional Staff	120/hour
Supervisor	175/hour	Entry Level Professional - 1 st Yr	105/hour
Senior Professional Associate *	140 – 160/hour	Administrative Assistant	80/hour
Technology Consulting *	140 – 240/hour	Support Staff	70/hour

* Standard rates may vary on a staff by staff or principal by principal basis.

The Honorable City Council of the City of Guadalupe
Guadalupe Community Redevelopment Agency
April 17, 2012
Page 9

The highest rates for principals and managers are for specialized services such as litigation support, expert witness testimony, estates and trusts, or mergers and acquisitions and would not necessarily relate to services provided to you.

If any dispute arises among the parties, they agree to try first in good faith to settle the dispute by mediation administered by the American Arbitration Association (AAA) under its Rules for Professional Accounting and Related Services Disputes, before resorting to litigation or arbitration. The mediation shall take place in San Luis Obispo, California at a date and time mutually convenient to the parties. The cost of any mediation proceeding shall be shared equally by all parties. Evidence of anything said, any admission made, or any documents prepared in the course of the mediation shall not be admissible in evidence, or subject to discovery in any arbitration or court proceeding pursuant to California Evidence Code Section 1152.5. All unresolved disputes shall then be decided by final and binding arbitration in accordance with the Rules for Professional Accounting and Related Services Disputes of the AAA. The arbitration shall be held in San Luis Obispo, California unless otherwise agreed in writing between the parties. Fees charged by arbitrators or the AAA shall be shared equally by all parties. 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.

As your auditors, we are required to keep all information about our engagement confidential; so, we will not disclose any information about you unless we have your approval or are required/permitted by law. This applies even if you are no longer a client.

As your auditors, we are committed to the safekeeping of your confidential information and we maintain physical, electronic, and procedural safeguards to protect your information.

Government Auditing Standards require that we provide you with a copy of our 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. Our 2011 peer review report accompanies this letter.

Electronic Communication

In the interest of facilitating our services to your company, we may communicate by facsimile transmission or send electronic mail over the Internet. Such communications may include information that is confidential to your company. Our firm employs measures in the use of facsimile machines and computer

The Honorable City Council of the City of Guadalupe
Guadalupe Community Redevelopment Agency
April 17, 2012
Page 10

technology designed to maintain data security. While we will use reasonable efforts to keep such communications secure in accordance with our obligations under applicable laws and professional standards, you recognize and accept that we have no control over the unauthorized interception of these communications once they have been sent, and consent to our use of these electronic devices during this engagement.

* * * * *

We appreciate the opportunity to be of service to Guadalupe Community Redevelopment Agency and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign and return the original letter to us. A copy is enclosed for your files.

Sincerely,



Allen E. Eschenbach, CPA
Principal
for
Glenn Burdette
Certified Public Accountants

RESPONSE:

This letter correctly sets forth the understanding of Guadalupe Community Redevelopment Agency.

Officer signature: _____

Title: _____

Date: _____

SYSTEM PEER REVIEW

To the principals of
Glenn, Burdette, Phillips & Bryson
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Glenn, Burdette, Phillips & Bryson, (the firm) in effect for the year ended May 31, 2011. 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. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Glenn, Burdette, Phillips & Bryson, in effect for the year ended May 31, 2011, 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*. Glenn, Burdette, Phillips & Bryson, has received a peer review rating of *pass*.



LarsonAllen LLP

September 30, 2011
Bellevue, Washington