

## RD Non-Profit ENGAGEMENT LETTER

On Firm Letterhead

DATE

PROJECT NAME

PROJECT ADDRESS

PROJECT CITY, STATE, ZIP

We are pleased to confirm our understanding of the services we are to provide for PROJECT NAME for the year ended [Year End]. We will audit the financial statements of PROJECT NAME, which comprise the statement of financial position as of Year End, and the related statements of activities and changes in net assets and cash flows for the period/year, then ended, and the related notes to the financial statements. Also, the schedule of expenditures of federal awards and the supplementary financial information accompanying the financial statements required by the U.S. Department of Agriculture Rural Development Housing Programs will be subjected 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, in accordance with auditing standards generally accepted in the United States of America and we will provide an opinion on it in relation to the financial statements as a whole.

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements and for which our auditor's report will not provide an opinion or any assurance. (Such Items may include schedules of other assets, insurance, escrows or any other schedule not required to be submitted to Rural Development Multifamily Housing submission and covered by the auditor's opinions.)

1. Item 1
2. Item 2
3. Item 3

### Non-Audit Services

As part of our engagement to opine on the financial statements and on compliance, you have also engaged us to perform the following non-audit services.

1. You have asked us to assist in the preparation of the financial statements, related notes and other supplemental information.
2. We will prepare the trial balance for use during the audit. Our preparation of the trial balance will be limited to formatting information into a working trial balance based on management's chart of accounts.
3. You have engaged us to complete the MINC templates with your financial information prior to its electronic submission to Rural Development.
4. You have engaged us to assist in preparing depreciation schedules related to the PROJECT NAME's assets.
5. We will also prepare the federal and state tax returns for the year ended DATE.

Fees for these services may be billed as described below.

Certain communications involving tax advice are privileged and not subject to disclosure to the IRS. By disclosing the contents of those communications to anyone, or by turning over information about those communications to the government, you, your employees, or agents may be waiving this privilege. To protect this right to privileged communication, please consult with us or your attorney prior to disclosing any information about our tax advice. Should you decide that it is appropriate for us to disclose any potentially privileged communication; you agree to provide us with written, advance authority to make that disclosure.

## **AUDIT OBJECTIVES**

The objective of our audit is the expression of an opinion about 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 supplementary information referred to in the first paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on:

- Internal control over financial reporting and compliance with the provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with Government Auditing Standards (GAS).
- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

The Government Auditing Standards report on internal control over financial reporting and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) that the report is an integral part of an audit performed in accordance with GAS in considering the entity's internal control and compliance. The Uniform Guidance report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

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 GAS, issued by the Comptroller General of the United States; and the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance, and will include tests of accounting records, a determination of major program(s) in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express such opinions. We will issue written reports upon completion of our audit. Our reports will be addressed to [management and/or the partners or governing board] of **PROJECT NAME**. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph. If our opinion on the financial statements or the compliance opinions are other than unmodified, 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 opinions, we may decline to express opinions or to issue reports, or we may withdraw from this engagement.

## **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) misappropriations of assets, or (4) violations of laws or governmental regulations that are attributable to **PROJECT NAME** or to acts by management or employees acting on behalf of **PROJECT NAME**. 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 limitation of internal control, 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, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and GAS. In addition, an audit is not designed to detect immaterial misstatements or non-material 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 the appropriate level of management of any material errors, 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, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. 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.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts and may include direct confirmation of cash, receivables, loan balances, and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors and financial institutions. We will request written representations from the project's attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; supplementary information; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

## **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 GAS.

As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance requirements applicable to each major Rural Development-assisted program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

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 American Institute of Certified Public Accountants (AICPA) professional standards, GAS, and the Uniform Guidance.

### **AUDIT PROCEDURES—COMPLIANCE**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of **PROJECT NAME** compliance with provisions of applicable laws, regulations, 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 in our report on compliance issued pursuant to GAS.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the **PROJECT NAME** has complied with federal statutes, regulations, and the terms and conditions of federal awards applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the OMB Compliance Supplement for the types of compliance requirements that could have a direct and material effect on each of for the types of compliance requirements that could have a direct and material effect on each of **PROJECT NAME**'s major programs. The purpose of these procedures will be to express an opinion on **PROJECT NAME**'s compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to The Uniform Guidance.

### **OTHER SERVICES**

We will prepare the **PROJECT NAME**'s federal and state tax returns for the year/period ended [Year End] for the [Identify jurisdictions] based on information provided by you. We will also assist in preparing the financial statements, supplementary information, schedule of expenditures of federal awards (SEFA), and related notes in conformity with U.S. generally accepted accounting principles and Rural Development's Multifamily Housing Programs based on information provided by you. These nonaudit services do not constitute an audit under GAS, and such services will not be conducted in accordance with GAS.

We will perform the services in accordance with applicable professional standards, including the Statements on Standards for Tax Services issued by the AICPA. The other services are limited to the financial statement and tax services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities. We will advise management with regard to tax positions taken in the preparation of the tax return, but management must make all decisions with regard to those matters.

### **MANAGEMENT RESPONSIBILITIES**

Management is responsible for (1) establishing and maintaining effective internal controls, including internal controls over federal awards, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; (3) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (4) ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulation, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, the supplementary information required by Rural Development's reporting requirements, and related notes in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations (including federal statutes) and the provisions of contracts and grant agreements (including award agreements).

Management is also responsible for making all financial records and related information available to us, and for ensuring that management is effective and financial information is reliable and properly recorded. You are also responsible for ensuring that the project is in compliance with applicable laws, regulations and the provisions of contracts and grant agreements. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) all information related to determining compliance with applicable laws and regulations and the provisions of contracts and grant agreements, including correspondence from HUD or other agencies where such correspondence could indicate the possibility of noncompliance; (3) additional information that we may request for the purpose of the audit and, (4) unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

Your responsibilities also include identifying any significant contractor relationships in which the contractor has the responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and 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 or illegal acts affecting the **PROJECT NAME** involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud 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 **PROJECT NAME** 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. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provision of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by the Guide, it is management's responsibility to evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings; promptly follow up and take corrective action on reported audit findings; and prepare a schedule of the status of prior audit findings,

questioned costs, and recommendations and a corrective action plan. The schedule of the status of prior audit findings, questioned costs and recommendations should be available for our review on **DATE**.

You are responsible for identifying all federal awards received and understanding and complying with the compliance requirements, and for the preparation of the supplementary information and schedule of expenditures of federal awards (including notes and noncash assistance received), which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information and SEFA in any document that contains, and indicates that we have reported on, the supplementary information and SEFA. You also agree to present the supplementary information and SEFA with the audited financial statements OR make the audited financial statements readily available to users of the supplementary information and SEFA no later than the date the supplementary information is issued with our report thereon. Your responsibilities include acknowledging to us in the management representation letter that (1) you are responsible for presentation of the supplementary information and SEFA in accordance with U.S. generally accepted accounting principles; (2) you believe the supplementary information, including its form and content, and SEFA is fairly presented in accordance with U.S. generally accepted accounting principles; (3) the methods of measurement or presentation have not changed from those in the prior period (or, if they have changed, the reasons for any such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information and SEFA.

You are responsible to notify us in advance of your intent to print our report, in whole or in part, for inclusion in a document containing other information, and to give us the opportunity to review such printed matter before its issuance.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing copies of previous financial audits, and any other audits, attestations, studies, or reviews conducted by the Department of Agriculture's Office of Inspector General, Rural Development management, a contract administrator, or any other federal agency, directly 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, attestations, studies, or reviews and reporting findings and the current status of such findings in the schedule of the status of prior audit findings, questioned costs and recommendations, in accordance with the requirements of the Uniform Guidance. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions for the report, and for the timing and format for providing that information.

Management is also responsible for ensuring that the electronic submission of required annual financial and compliance data to Rural Development's MINC system is complete, accurate, and timely, in accordance with your regulatory and contractual obligations to Rural Development.

You agree to assume all management responsibilities relating to the tax services, financial statements, SEFA, other supplementary information, and related notes, and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter the tax services provided and our assistance with preparation of the financial statements, SEFA, other supplementary information, and related notes, and that you have reviewed and approved the financial statements, SEFA, other supplementary information, and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to oversee

the nonaudit services by designating an individual, preferable from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

## **ENGAGEMENT ADMINISTRATION, FEES, AND OTHER**

We may, from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all cash, accounts receivable, and other confirmation we request and will locate any documents or invoices selected by us for testing. A list of information we expect to need for our audit is attached to this engagement letter. Please have this information available for us on [DATE].

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 **Firm Name** and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to the Secretary of Agriculture or designee, the Inspector General, the U.S. Government Accountability Office, or their representatives 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 **Firm Name** 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.

The audit documentation for this engagement will be retained for a minimum of six years after the report release date or for any additional period requested by Rural Development. If we are aware that a federal awarding agency, pass-through Project, 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.

**Engagement Partner** is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. We expect to begin our audit on approximately **Date** and to complete your tax return(s) and issue our reports no later than **Date**.

We estimate that our fees for these services will range from \$ \_\_\_\_\_ to \$ \_\_\_\_\_. You will also be billed for travel and other out-of-pocket costs such as report production, word processing, postage, etc. Based on our preliminary estimates, the fees should approximate:

- Audit
- Non-Audit Service 1
- Non-Audit Service 2
- Non-Audit Service 3

The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. 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. 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 \_\_\_\_\_ 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, our engagement will be deemed to have been completed upon written notification of termination, 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.

GAS require that we provide you with a copy of our most recent external peer review report and any subsequent peer review reports received during the period of the contract when requested by you. Accordingly, our **YYYY** peer review report accompanies this letter.

We appreciate the opportunity to be of service to **PROJECT NAME** and believe this letter accurately summarizes the significant terms of our engagement. If you have questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

[FIRM NAME]

This letter correctly sets forth the understanding of **PROJECT NAME**

Signature:

Title:

Date: