

Profit-Motivated  
**ENGAGEMENT LETTER**

PROJECT NAME  
PROJECT ADDRESS  
PROJECT CITY, STATE, ZIP

We are pleased to confirm our understanding of the nature and limitations for each of the Project listed in Exhibit A.

We will audit the financial statements of [PROJECT NAME], which comprise the balance sheet as of [Year End], and the related statements of income, changes in partner's capital, and cash flows for the [year/period] then ended, and the related notes to the financial statements. Also, the supplementary information accompanying the financial statements required by the *U.S. Department of Agriculture's RD Handbook HB-2-3560* (RD). Reporting requirements for supplemental data rams 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 (GAAS), we will provide an opinion on it in relation to the financial statements as a whole in a report combined with our auditor's report on the financial statements:

***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 RD in the submission and covered by the auditor's opinions.) This section refers to Other Information covered under AU-C 720. If there is none, this section is deleted.***

- 1. Item 1***
- 2. Item 2***
- 3. Item 3***

**Non-Audit Services**

As part of our engagement, and in order to complete the audited financial statements in a timely manner, you have requested that we assist you with a variety of non-audit services. Under professional standards these services may increase our risk of independence. In order to reduce any independence risk that may exist to an acceptable level, you will be required to take responsibility for those services. Further, you will be required to assign personnel with suitable skills, knowledge and experience to review the services provided to ensure that such are acceptable and appropriate. Services to be proved will include the following:

1. Recording transactions or posting coded transactions you have approved
2. Posting entries you have approved to the project's trial balance
3. Assist in the preparation of the following financial statement related items based on the information you will provide to us:
  - a. Entity's basic financial statements and related notes in accordance with U.S. generally accepted accounting principles (GAAP)

- b. RD-required supplemental data in accordance with the RD Handbook.
4. Preparing account reconciliations that may identify reconciling items for evaluation
5. Calculating depreciation for the assets of the project in accordance with the lives, amounts and methods you previously agreed to.
6. We will prepare the project's federal and state tax returns for the period/year ended DATES for the jurisdictions listed below:
  - a. Example 1
  - b. Example 2
  - c. Example 2
7. *Other services as required*

The above described non-audit services do not constitute an audit under *Government Auditing Standards (GAS)*, and such services will not be conducted in accordance with GAS.

With regards to the previously described depreciation schedules, we will provide to you a complete copy of our calculations of depreciation in accordance with your provided lives, methods and amounts. Accordingly, you will also be required to provide us with the lives, methods and amounts for fixed asset additions for the current year.

We will perform the services in accordance with applicable professional standards, including the *Statements on Standards for Tax Services* issued by the *American Institute of Certified Public Accountants*. The other services are limited to the financial statements, supplementary information, and related notes 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.

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 GAAP and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on each entity's:

- 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 GAS.
- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have

a direct and material effect on each major program in accordance with chapter 4 of RD's HB-2-3560 Handbook. (RD Handbook).

The GAS 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 RD Handbook 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 RD Handbook. Both reports will state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with GAAS, the standards for financial audits contained in GAS, issued by the *Comptroller General of the United States*; and the RD Handbook and will include tests of accounting records, a determination of major program(s) in accordance with the RD Handbook, 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**. 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** or to acts by management or employees acting on behalf of **PROJECT**. Because the determination of waste or abuse is subjective, GAS do not expect auditors to provide reasonable assurance of detecting these items.

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 GAAS 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 RD 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.

#### **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 RD Handbook, 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 RD-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 RD Handbook.

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* professional standards, GAS, and the RD Handbook.

#### **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** 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 RD Handbook requires that we also plan and perform the audit to obtain reasonable assurance about whether the **PROJECT** has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to RD-assisted major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the RD Handbook. The purpose of these procedures will be to express an opinion on **PROJECT**'s compliance with requirements applicable to each of its major RD-assisted programs in our report on compliance issued pursuant to the RD Handbook.

## 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 RD, and related notes in conformity with GAAP; and for compliance with applicable laws and regulations (including federal statutes) and the provisions of contracts and grant agreements (including award agreements).

Management is 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) access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under the RD Handbook; (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 vendor relationships in which the vendor has the responsibility for program compliance and for the accuracy and completeness of that information. You are also required to confirm 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.

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** 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** 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 RD Handbook, 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, which we have been engaged to report on, in conformity with GAAP. 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 present the supplementary information with the audited financial statements OR make the audited financial statements readily available to users of the supplementary information 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 in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (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 .

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, 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.

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 RD Office of Inspector General, RD 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 RD Handbook. 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 RD is complete, accurate, and timely, in accordance with your regulatory and contractual obligations to RD.

You agree to assume all management responsibilities relating to the financial statements, supplementary information, and related notes, and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter your responsibility for the financial statements, related footnotes, supplemental data, tax and other nonaudit services provided and that you have reviewed and approved the financial statements, 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.

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 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's** 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 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 Department of Agriculture's 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 RD, OIG or GAO representatives. RD, 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.

**PARTNER NAME** 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**.

Based on our preliminary estimate, the audit and tax procedure fees will be as detailed in Exhibit A.

You will also be billed for travel and other out-of-pocket costs such as report production, word processing, postage, etc.

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 non-payment, 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.

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.

We appreciate the opportunity to be of service to **PROJECT** 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**

Signature:

Title:

Date: