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September 11, 2013

Mr. Heath Kaplan  
Finance & Management Services Director  
County of Muskegon  
141 E. Apple Avenue  
Muskegon, MI 49442

Enclosed is the engagement letter for the *County of Muskegon* for the year ended September 30, 2013. *Government Auditing Standards* (as amended) require that we communicate, during the planning stage of an audit, certain information to the Governing Body. This information includes the auditors' responsibilities in a financial statement audit, including our responsibilities for testing and reporting on compliance with laws and regulations and internal control over financial reporting. The engagement letter includes the items which must be communicated to the Governing Body.

Therefore, please make copies of the attached engagement letter and forward the copies to the Governing Body.

Please sign and return the enclosed copy of the attached engagement letter to us at your earliest convenience.

Sincerely,

A handwritten signature in black ink that reads "Rehmann Robson LLC".

Enclosures

September 11, 2013

Mr. Heath Kaplan  
Finance & Management Services Director  
County of Muskegon  
141 E. Apple Avenue  
Muskegon, MI 49442

We are pleased to confirm our understanding of the services we are to provide the **County of Muskegon** (the "County") for the year ended September 30, 2013. We will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of the County as of and for the year ended September 30, 2013, and the related notes to the financial statements. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the County's basic financial statements. Such information, although not a 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 the County'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 responses 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. Schedules of Funding Progress and Employer Contributions -Employees' Retirement Plan
3. Schedules of Funding Progress and Employer Contributions - Other Postemployment Benefits Plan

We have also been engaged to report on supplementary information other than RSI, such as combining and individual fund financial statements and schedules, that accompanies the County's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic 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 financial statements and schedules
2. Schedule of expenditures of federal awards

Mr. Heath Kaplan  
Finance & Management Services Director  
County of Muskegon  
September 11, 2013  
Page 2

The following additional information accompanying the basic financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, for which our auditors' report will disclaim and opinion:

1. Introductory section of the Comprehensive Annual Financial Report
2. Statistical section of the Comprehensive Annual Financial Report
3. Muskegon Area Transit System schedules

### Audit Objectives

The objective of our audit is the expression of opinions as to whether the County's 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 basic financial statements taken as a whole. Our audit of the County's financial statements does not relieve management or those charged with governance of their responsibilities. The objective also includes reporting on -

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control 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 the Single Audit Act Amendments of 1996 and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will each include a paragraph that states that the purpose of the report is solely to describe (1) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (2) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance, and (3) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and with *OMB Circular A-133* in considering internal control over compliance and major program compliance. The paragraph will also 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of *OMB Circular A-133*, and will include tests of accounting records, a determination of major program(s) in accordance with *Circular A-133*, and other procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinion are other than unqualified (unmodified), we will discuss the reasons with management in advance. If circumstances occur and come to our attention related to the condition of the County's records, the availability of sufficient, appropriate audit evidence, or the existence of a significant risk of material misstatement of the financial statements caused by error, fraudulent financial reporting, or misappropriation of assets, or we become aware that information provided by the entity is incorrect, incomplete, or otherwise unsatisfactory which in our professional judgment prevent us from completing the audit or forming an opinion on the financial statements, we retain the right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawing from the engagement.

Mr. Heath Kaplan  
Finance & Management Services Director  
County of Muskegon  
September 11, 2013  
Page 3

As we have discussed, we intend to make reference to Brickley DeLong, PLC's audit of the Muskegon County Road Commission and BDO USA, LLP's audit of the Muskegon County Community Mental Health fund in our report on the County's financial statements.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting and financial reporting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

### **Management Responsibilities**

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal awards in accordance with the requirements of OMB Circular A-133. As part of the audit, we will assist with preparation of the County's financial statements, schedule of expenditures of federal awards, and related notes. Management is responsible for making all management decisions and performing all management functions relating to the financial statements, schedule of expenditures of federal awards, and related notes and for accepting full responsibility for such decisions. Management will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and the schedule of expenditures of federal awards and that management has reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. Further, management is required to designate an individual, preferably within senior management, who possesses suitable skill, knowledge, and/or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of these or other nonattest services performed by our Firm and understanding and accepting responsibility for the results of such services.

Management is responsible for designing, implementing, and maintaining effective internal controls, including internal controls over compliance, and for ongoing monitoring activities, to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements. Management is also responsible for the selection and application of accounting principles; for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County and the respective changes in financial position thereof, and the budgetary comparisons for the general fund and each major special revenue fund for the year then ended in conformity with an acceptable financial reporting framework, and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements. Management is responsible for determining, and has determined, that the applicable and appropriate financial reporting framework to be used in the preparation of the County's financial statements is accounting principles generally accepted in the United States of America (GAAP).

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. Management is also responsible for providing us with (1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request from management for the purpose of the audit, and (3) unrestricted access to persons within the County from whom we determine it necessary to obtain audit evidence.

Mr. Heath Kaplan  
Finance & Management Services Director  
County of Muskegon  
September 11, 2013  
Page 4

Management's responsibilities also include identifying significant vendor relationships in which the vendor has the responsibility for program compliance and 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 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.

We understand that management will provide us with such information required for our audit, including a reasonably adjusted trial balance, and that management is responsible for the accuracy and completeness of that information. Assistance provided by our Firm in the preparation of a reasonably adjusted trial balance is considered an additional billable service.

We will advise management (and the Audit Committee, as necessary) about appropriate accounting principles and their application and may assist in the preparation of the County's financial statements, but the responsibility for the financial statements remains with management with oversight by those charged with governance. As part of our engagement, we may propose standard, adjusting, or correcting journal entries to the County's financial statements. Management is responsible for reviewing the entries, understanding the nature of any proposed entries and the impact they have on the financial statements, and the implications of such entries on the County's internal control over financial reporting. Further, the County is responsible for designating a qualified management-level individual to be responsible and accountable for overseeing these services.

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 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. Management's responsibilities include informing us of its knowledge of any allegations of fraud, suspected fraud or illegal acts affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, management is responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review at the conclusion of fieldwork.

Management is responsible for preparation of the schedule of expenditures of federal awards in conformity with OMB Circular A-133. Management agrees to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we reported on the schedule of expenditures of federal awards. Management also agrees to include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon or make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Management's responsibilities include acknowledging to us in the representation letter that (a) management is responsible for presentation of the schedule of expenditures of federal awards in accordance with OMB Circular A-133; (b) that management believes the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with OMB Circular A-133; (c) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (d) management has disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.



Mr. Heath Kaplan  
Finance & Management Services Director  
County of Muskegon  
September 11, 2013  
Page 5

Management is also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with accounting standards generally accepted in the United States of America. Management agrees to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. Management also agrees to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Management's responsibilities include acknowledging to us in the representation letter that (a) management is responsible for presentation of the supplementary information in accordance with GAAP; (b) that management believes 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 from those used in the prior period (or, if they have changed, the reasons for such changes); and (d) management has disclosed to us any significant assumptions or interpretations underlying the measurement or 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 financial 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 studies. Management is also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report, and for the timing and format for providing that information.

During the course of our engagement, we will request information and explanations from management regarding the County's operations, internal control over financial reporting, various matters concerning fraud risk, future plans, specific transactions, and accounting systems and procedures. At the conclusion of our engagement, we will require, as a precondition to the issuance of our report, that management provide certain representations in a written management representation letter.

#### **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 auditing standards generally accepted in the United States of America 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 or major programs. However, we will inform the appropriate level of management of any material errors or any fraudulent financial reporting or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management of any violations of laws or

Mr. Heath Kaplan  
Finance & Management Services Director  
County of Muskegon  
September 11, 2013  
Page 6

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 receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We may request written representations from the County's attorneys as part of the engagement, and they may bill the County for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from management about the financial statements and related matters.

We have advised the County of the limitations of our audit regarding the detection of fraud and the possible effect on the financial statements (including misappropriation of cash or other assets) notwithstanding our obligations per the Single Audit Amendments of 1996 and OMB Circular A-133. We can, as a separate engagement, perform extended procedures specifically designed to potentially detect defalcations. Management acknowledges that the County has not engaged us to do so and does not wish us to do so at this time.

#### **Audit Procedures - Internal Controls**

Our audit will include obtaining an understanding of the entity and its business environment, including internal control over financial reporting sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures that are appropriate in the circumstances. 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*.

As required by OMB Circular A-133, 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 with compliance requirements applicable to each major federal award 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 OMB Circular A-133.

An audit is not designed to provide assurance on internal control, or to identify significant deficiencies or material weaknesses in internal control, or to express an opinion on the effectiveness of internal control over financial reporting. However, during the audit, we will communicate to the appropriate level of management and those charged with governance internal control related matters that are required to be communicated under professional standards, *Government Auditing Standards* and OMB Circular A-133. These matters refer to significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the entity's financial reporting process. When applicable, we are responsible for communicating certain matters required by laws or regulations, or by additional requirements that may be applicable to this engagement. Auditing standards generally accepted in the United States of America do not require the independent auditor to design or perform procedures for the purpose of identifying other matters to communicate with those charged with governance. Management is responsible for assessing the implications of and correcting any internal control-related matters brought to the entity's attention by us.

Mr. Heath Kaplan  
Finance & Management Services Director  
County of Muskegon  
September 11, 2013  
Page 7

### Audit Procedures - Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the County's compliance with provisions of 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 in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the County's major programs. The purpose of those procedures will be to express an opinion on the County's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

### Engagement Administration, Fees, and Other

Our base fee for the audit of the year ended September 30, 2013 will be \$44,000 (\$38,900 for financial and single audit and \$3,500 for preparation of the financial statements). In addition, as described in the attached change order, a one-time fee of \$1,000 will be invoiced for implementation of GASB Statements 63 and 65 and group audit standards. An additional \$600 will be invoiced for our assistance with the compilation of financial data in the Form F-65. Our services related to the F-65 are described in the attached letter of understanding.

Our invoices for the base fee are due and payable as follows:

#### Payment schedule:

Payment 1	\$ 19,800	01/20/2014
Payment 2	19,800	01/27/2014
Payment 2	<u>4,400</u>	Upon report issuance
Total	<u>\$ 44,000</u>	

These fees include a single audit with up to six major programs. If additional major programs are required to be tested, the County will be billed an additional \$1,500-\$2,500 per program, depending on the complexity of the related compliance requirements.

This fee is based on the assumption that unexpected circumstances will not be encountered during the audit. This fee is based on anticipated cooperation from County personnel, continued readiness and proactive assistance on their part in providing us with complete and accurate information (whether financial or nonfinancial in nature) considered necessary by us to form an appropriate opinion, and the assumption that unexpected circumstances will not be encountered during the audit. Such circumstances include, but are not necessarily limited to significant addition or deletion of funds, component units or related entities and first-time application of significant new professional accounting or auditing pronouncements. In addition, the fee above assumes management will analyze and maintain appropriate support for significant valuation assertions embodied in the financial statements.



Mr. Heath Kaplan  
Finance & Management Services Director  
County of Muskegon  
September 11, 2013  
Page 8

If significant additional time is necessary, we will discuss the related circumstances with management and arrive at a new fee estimate, which may or may not occur before we incur the additional time. In these circumstances, we may also issue a change order form (an attached example is provided).

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and a corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with management the electronic submission and certification. If applicable, we will provide copies of our reports for the County to include with the reporting package the County will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

The audit documentation for this engagement is the property of Rehmann and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a cognizant or grantor agency for audit 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 management of any such request. If requested, access to such audit documentation will be provided under the supervision of Rehmann 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 five years after the report release or for any additional period requested by the cognizant agency, oversight agency for audit, or pass-through entity. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the parties contesting the audit finding for guidance prior to destroying the audit documentation.

We will issue a written report upon completion of our audit of the County's financial statements. Our report will be addressed to the governing body of the County. 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, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement.

Our audit engagement ends on delivery of our audit report to the Governing Body at the Regular or Special Board meeting. Any follow-up services that might be required will be part of a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

*Government Auditing Standards* require that we provide the County with a copy of our most recent external peer review report and any subsequent peer review reports received during the period of the contract. Our 2011 peer review report accompanies this letter.

This engagement letter and the attached Rehmann Audit Engagement Letter Terms reflect the entire understanding between us relating to the audit services covered by this agreement. This agreement may not be amended or varied except by a written document signed by both parties. It replaces and supersedes any previous proposals, correspondence, and understandings, whether written or oral. The agreements of the County and Rehmann contained in this document shall survive the completion or termination of this engagement. If any term hereof is found unenforceable or invalid, this shall not affect the other terms hereof, all of which shall continue in effect as if the stricken term had not been included.

Mr. Heath Kaplan  
Finance & Management Services Director  
County of Muskegon  
September 11, 2013  
Page 9

We appreciate the opportunity to be of service to the County and believe the arrangements outlined above and in the attached Rehmann Audit Engagement Letter Terms accurately summarize the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement, please sign the enclosed copy of this document and return it to us.

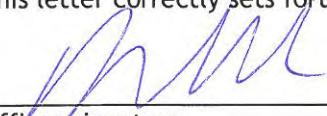
*Rehmann Lobson LLC*

Gregory L. LaPres, CPA  
Principal  
Executive responsible for coordinating and  
administering client services

Stephen W. Blann, CPA, CGFM, CGMA  
Principal  
Executive responsible for supervising the  
engagement and signing our report

ACKNOWLEDGED AND ACCEPTED:

This letter correctly sets forth the understanding of the *County of Muskegon*.

  
\_\_\_\_\_  
Officer signature

*Heath Kaplan*  
\_\_\_\_\_  
Printed Name

*Finance + Management Services Director*  
\_\_\_\_\_  
Title

*9/19/13*  
\_\_\_\_\_  
Date

## Rehmann Audit Engagement Letter Terms

**ADDITIONAL SERVICES** - The Governmental Entity may request that we perform additional services not addressed in this engagement letter. If this occurs, we will communicate with management regarding the scope of the additional services and the estimated fees. We also may issue a change order form (an attached example is provided), or a separate engagement letter covering the additional services. In the absence of any other written communication from us documenting such additional services, our services will continue to be governed by the terms of this engagement letter.

**CODE OF CONDUCT** - Management is responsible for identifying any violations by employees of the Governmental Entity's code of conduct.

**CHANGES IN STANDARDS, LAWS AND REGULATIONS** - We perform services for the Governmental Entity based on present professional standards, laws and regulations. While we may on occasion be able to communicate with management with respect to changes in professional standards, laws and regulations, as a general principle we cannot undertake with clients to advise them of every change that may occur. The Governmental Entity can always obtain reassurance in this regard by contacting us for an updated review of the Governmental Entity's situation.

**MANAGEMENT'S REPRESENTATIONS** - The procedures we will perform in our engagement and the conclusions we reach as a basis for our report will be heavily influenced by the written and oral representations that we receive from management. Accordingly, misleading, incomplete or omitted representations could cause us to expend unnecessary efforts or could cause material error or a fraud to go undetected by our procedures.

**CLIENT ASSISTANCE** - We understand that the Governmental Entity's employees will prepare all cash, accounts receivable, and other confirmations we request and will locate and refile any documents selected by us for testing. In addition, management will provide us with copies of all minutes and other documents that we believe may have a bearing on our evaluation of the Governmental Entity's financial affairs.

**WORK SPACE** - The Governmental Entity shall provide reasonable work space for Rehmann personnel at audit work sites, as well as occasional clerical support services. The Governmental Entity understands that Rehmann's performance is dependent on the Governmental Entity's timely and effective satisfaction of its own activities and responsibilities in connection with this engagement, as well as timely decisions and approvals by Governmental Entity personnel.

**ACCURACY AND COMPLETENESS OF INFORMATION** - Management agrees to ensure that all information provided to us is accurate and complete in all material respects, contains no material omissions and is updated on a prompt and continuous basis. In addition, management will also be responsible for obtaining all third-party consents, if any, required to enable Rehmann to access and use any third-party products necessary to our performance.

**EMAIL** - The Governmental Entity acknowledges that (a) Rehmann, the Governmental Entity and others, if any, participating in this engagement may correspond or convey documentation via Internet e-mail unless the Governmental Entity expressly requests otherwise, (b) no party has control over the performance, reliability, availability, or security of Internet e-mail, and (c) Rehmann shall not be liable for any loss, damage, expense, harm or inconvenience resulting from the loss, delay, interception, corruption, or alteration of any Internet e-mail due to any reason beyond Rehmann's reasonable control.

**OFFERS OF EMPLOYMENT** - Professional standards require us to be independent with respect to the Governmental Entity in the performance of our services. Any discussions that management has with personnel of our Firm regarding employment could pose a threat to our independence. Therefore, we request that management inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

Neither party shall, during the term of this engagement letter and for one (1) year after its termination, solicit for hire as an employee, consultant or otherwise any of the other party's personnel without such other party's express written consent. If the Governmental Entity desires to offer employment to a Rehmann associate and the associate is hired in any capacity by the Governmental Entity, a market-driven compensation placement fee may apply.

**ADDITIONAL FEES AND BILLING POLICIES** - It must be understood that the nature of our engagement requires us to exercise our independent professional judgment with respect to various auditing, accounting and related issues. In reaching our conclusions, we must retain the right to judge the nature and scope of the work required in order to conform to professional standards, as well as the work we deem necessary to enable us to reach the conclusions and form the opinions required of us. If our judgment as to the scope of the work required causes us to reassess our estimate of fees for this engagement, we will so advise the Governmental Entity. We reserve the right to refrain from performing additional work (and thereby incurring additional time charges) unless and until the Governmental Entity has confirmed its understanding of, and agreement to, any additional estimated charges.

Our fee estimate is based upon our discussions with management, in which management has disclosed no unusual problems or issues which would require us to conduct an audit of unusual scope or otherwise expend time and effort in excess of that normally anticipated in an engagement of this type. The estimate also assumes that we will have the full cooperation of Governmental Entity personnel, as required, and that there is a reasonable continuity of Governmental Entity personnel familiar with the matters to which our engagement relates. In addition, our fee is based on the experience level of our personnel, at their respective standard hourly rates, performing certain audit procedures at certain timeframes. If we are caused to vary from that planning formula, additional fees will need to be charged to allow for more experienced personnel performing the work, reallocation of our client priority, overtime, etc. Further, management will provide us with the schedules and records that we request (which ordinarily are detailed in a request list in advance of our fieldwork) and that all such schedules and records will be provided to us timely in accordance with the scheduled fieldwork dates, to be mutually agreed upon. If the requested schedules and records are not provided to us in accordance with the scheduled dates and we are unable to continue our work, we will resume our work as soon as the schedules and records are provided to us and our professionals assigned to the engagement again become available.

As a result of well-publicized events, global economic convergence, and the continued evolution of the accounting profession, accounting and auditing standard setters and regulators are continually evaluating the need for changes that may affect the Governmental Entity. Such changes may result in changes in financial reporting and expanding the nature, timing and scope of activities we are required to perform to provide the services discussed in this letter. Proposed changes and shortened deadlines could result in a reduction of the level of assistance and preparedness the Governmental Entity is able to provide. We expect that our clients may continue to look to us to assist them with these changes. To the extent any changes require us to increase the time required to provide the services described in this letter or to complete new tasks required by such changes, we reserve the right to adjust our fees appropriately. We will endeavor to advise the Governmental Entity of anticipated changes to our fees on a timely basis.

In accordance with our Firm policies, work may be suspended if the Governmental Entity's account becomes 30 days or more overdue and will not be resumed until the account is paid in full or we have a definitive payment agreement approved by our Firm administrator in Saginaw, Michigan. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed even if we have not issued our report. The Governmental Entity 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.

## Rehmann Audit Engagement Letter Terms

Our terms and conditions impose a late charge of 1.5% per month, which is an annual percentage rate of 18%. Balances not paid within 30 days of the receipt of invoice are past due and a late charge of 1.5% will be applied to the entire past due amount.

**CLAIMS** - Because there are inherent difficulties in recalling or preserving information as the period after an engagement increases, the Governmental Entity agrees that, notwithstanding the statute of limitations of any particular State or U.S. Territory, any claim based on the audit engagement must be filed within 12 months after performance of our service, unless management has previously provided us with a written notice of a specific defect in our services that forms the basis of the claim.

**TERMINATION OF SERVICES** - We reserve the right to suspend or terminate services for reasonable cause such as failure to pay our invoices on a timely basis or failure to provide adequate information in response to our inquiries necessary for successful performance of our audit services. Our engagement will be deemed to be completed upon written notification of termination, even if we have not completed the audit and issued our signed auditors' report. The Governmental Entity is obligated to compensate us for the time expended to that point and to reimburse us for all out-of-pocket expenditures through the date of termination.

We acknowledge the Governmental Entity's right to terminate our services at any time, and the Governmental Entity acknowledges our right to withdraw at any time, including, but not limited to, for example, instances where, in our judgment, (a) the conditions in the first paragraph of the Audit Objectives section of this letter exist, (b) our independence has been impaired, (c) we can no longer rely on the integrity of management, or (d) management (or the Audit Committee, if applicable) fails to reasonably support our efforts to perform the engagement in accordance with what we believe is necessary to comply with professional standards, subject in either case to our right to payment for charges incurred to the date of termination or resignation.

In the event that we determine to resign, and the Governmental Entity seeks damages allegedly resulting from such resignation, our maximum liability to the Governmental Entity in the event we are held liable because of such resignation shall be limited to the fees actually paid to us for current year audit work performed up to the date of resignation.

**REPRODUCTION OF FINANCIAL STATEMENTS** - If the Governmental Entity voluntarily intends to publish or otherwise reproduce its financial statements concurrently with the original issuance thereof of our audit report and/or make reference to our Firm name, such as for inclusion in an annual report (such as, for example, in a CAFR), prospectus or similar document, the Governmental Entity agrees to provide us with printer's proofs, drafts, or masters for our review and approval before printing. The Governmental Entity also agrees to provide us with a copy of the final reproduced material for our approval before it is distributed. Fees, if any, for issuance or inclusion of our audit report and/or any other reference to our Firm in such other document, will be based on our standard hourly rates

If the Governmental Entity decides to include, publish or otherwise reproduce the financial statements and our report thereon at a date subsequent to their original issuance, such as for inclusion in a Preliminary or Official Statement in connection with a sale of bonds or notes, or other securities, or in a prospectus or similar offering or other document (hereinafter referred to as the "document"), our Firm is presumed not to be associated with such document, and we have no obligation to perform any procedures with respect to such document. In these circumstances, the Governmental Entity agrees to include in the document a statement that we have not been engaged to perform and have not performed, since the date of our report being reproduced, any procedures on the financial statements contained in such document or on the unaudited financial or other information contained in the document, or on the document itself. If, however, management or the Governmental Entity's agent (such as an underwriter, bond counsel, financial advisor, etc.) requests our involvement, such as engaging us to prepare a written acknowledgement (sometimes referred to as a "consent" or "agree to

include") letter prior to including our audit report in such a document, or engaging us to assist in preparing or reviewing financial or other information contained in such document, our Firm then becomes associated with the document and in accordance with professional standards, we will be required to perform certain limited procedures with respect to this or other unaudited information contained in the document. Fees for reissuance or inclusion of our audit report in such a document will be based on our standard hourly rates. If the Governmental Entity wishes to make reference in such a document to our Firm's role in connection with the purpose of the document, the caption "Independent Auditors" may be used to title or label that section of the document. In accordance with professional standards, the caption "Experts" should not be used, nor should our Firm be referred to as "experts" anywhere in the document.

With regard to electronic dissemination of audited financial statements, including financial statements published electronically on the Governmental Entity's Internet Web site, the Governmental Entity understands that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

**INFORMAL ADVICE** - As part of our engagement we may provide advice on operating, internal control over financial reporting and other matters that come to our attention. Informal advice is not considered to be a consulting service unless we have entered into a separate engagement.

**THIRD PARTY PROCEEDINGS** - As a result of our prior or future services to the Governmental Entity, we might be requested to provide information or documents to management or a third party in a legal, administrative, or arbitration or similar proceeding in which we are not a party. If this occurs, our efforts in complying with such requests will be deemed billable to the Governmental Entity as a separate engagement. We shall be entitled to compensation for our time and reasonable reimbursement for our expenses (including legal fees) in complying with this request. For all requests, we will observe the confidentiality requirements of our profession and will notify management promptly of the request.

**PEER REVIEW** - Our Firm, as well as other major accounting firms, participates in a "peer review" program covering our audit and accounting practices. This program requires that once every three years we subject our quality assurance practices to an examination by another accounting firm. As part of the process, the other firm will review a sample of our work. It is possible that the work we perform for the Governmental Entity may be selected by the other firm for their review. If it is, the other firm is bound by professional standards to keep all information confidential. If management objects to having the work we perform for the Governmental Entity reviewed by our peer reviewer, please notify us in writing.

**PROMOTIONAL MATERIALS** - The Governmental Entity consents to Rehmann's use of your Governmental Entity name and a factual description of the services to be performed by Rehmann under this agreement in Rehmann's advertising and promotional materials and other proposal opportunities.

# LarsonAllen<sup>LLP</sup>

CPAs, Consultants & Advisors  
www.larsonallen.com

## SYSTEM REVIEW REPORT

To the Principals of Rehmann Robson  
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Rehmann Robson, a member of The Rehmann Group (the Firm) applicable to non-SEC issuers in effect for the year ended March 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](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, and audits performed under the Federal Deposit Insurance Corporation Improvement Act (FDICIA).

In our opinion, the system of quality control for the accounting and auditing practice of Rehmann Robson applicable to non-SEC issuers in effect for the year ended March 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*. Rehmann Robson has received a peer review rating of *pass*.

*LarsonAllen LLP*  
LarsonAllen LLP

Minneapolis, Minnesota  
August 18, 2011



LarsonAllen LLP is a member of Nexia International,  
a worldwide network of independent accounting and consulting firms.



## CHANGE ORDER

Client: *County of Muskegon* (the "County")

Date: September 12, 2013

Project Description: Implementation of new accounting standards

- GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 63 introduces new terminology to the balance sheet by creating a category of quasi-assets called "deferred outflows", and a category of quasi-liabilities called "deferred inflows". GASB 65 builds on this new terminology. Certain items previously reported as assets and liabilities will now be classified as deferred inflows and outflows, while other items will no longer be carried on the balance sheet. As these standards are closely related, we are encouraging our clients to implement them concurrently. Implementation will involve evaluation of existing balance sheet items to identification of amounts that may require reclassification or write-off; revising terminology in the financial statements, footnotes (including the summary of significant accounting policies) and management's discussion and analysis; and summarizing changes for disclosure in a restatement footnote, as needed.
- Group Audit Standards - The AICPA issued clarified auditing standards which will be effective for the County beginning with the September 30, 2013 audit. Group audit standards expand on the requirements for including information audited by other firms (in this case, the Muskegon County Road Commission and the Muskegon County Community Mental Health fund in the financial statements of the group (County of Muskegon's financial reporting entity as a whole). While this situation is not new, the clarified standards require the group audit firm (Rehmann) to consider the professional reputation, audit approach, and materiality calculations of the component auditor and evaluate and respond to any potential impact on the group audit. This will involve annual inquiries of the component auditors regarding method and approach and a technical standards review of component financial statements in draft form, to allow for identification of any material errors, omissions, or inconsistencies.

Price: Our fees for these services have been estimated based on the incremental time involved in implementation, at the rates quoted in our initial proposal (which are reduced substantially from our standard billing rates). Amounts for the current year audit will be billed separately upon issuance of the audit.



<u>Service</u>	<u>Scope</u>	<u>Fee</u>
Implementation of GASB 63/65	One-time cost	\$ 1,000
Group audit standards	Annual cost for remaining term of audit contract	<u>no charge<sup>1</sup></u>
<b>Net change in September 30, 2013 audit fee</b>		<u>\$ 1,000</u>

<sup>1</sup> We will include up to 2 hours of work relative to Group Audit Standards at no incremental cost to the County. If additional time is required, the additional time will be billed at the rates quoted in our initial proposal

We believe it is our responsibility to exceed the County's expectations. This Change Order is being prepared because the accounting standard listed above is expected to result in a one-time increase in time necessary to complete the audit. This amount is not part of the base audit fee and we do not expect to bill additional amounts for these standards in future years. It is our goal to ensure that the County is never surprised by the price for any Rehmann Robson service and, therefore, we have adopted the Change Order Policy.

If you agree with the above project description and the price, please authorize and date the Change Order below. Retain a copy for your records. Thank you for letting us serve you.

*Rehmann Robson LLC*

Agreed to and accepted:



*Heath Kaplan, Finance + Management Services Director*

Name and Title

*9/19/13*

Date

**LETTER OF UNDERSTANDING**

**Client name.** *County of Muskegon* (the “County”)

**Fiscal year end.** September 30, 2013

**Purpose.** To the extent that Rehmann performs the audit of a government and also provides non-audit services, professional standards require detailed consideration of the impact these non-audit services have on the auditors’ independence. Accordingly, we have prepared this letter of understanding to document the limitations on our services and clearly define the responsibilities of management and the auditors.

**Project description.** We will provide assistance with compilation of data for the State of Michigan Form F-65. Our services will be limited to the data that can be obtained directly from the trial balance or audited financial statements. We consider the F-65 sections/tabs titled “position” (i.e., the balance sheet) and “operations” (i.e., the income statement), “capital outlay” and “indebtedness” to meet this criterion. The F-65 includes additional sections/tabs related to employee benefits and other information. This information does not correlate directly with the trial balance or audited financial statements. Therefore, this project does not include any data compilation for these sections/tabs.

**Fee.** The fee for our assistance with the compilation of this data will be \$600. This amount will be billed in a single installment upon completion.

**Expected timing.** The F-65 is based on audited financial information. As such, it cannot be completed until the audit is complete (including any separately audited funds or component units). The F-65 is due to the State no later than 6 months after year-end. We will make every attempt to provide you with the data compiled from the trial balance with sufficient time for the County to review, propose questions to the auditors, and submit the data in a timely manner. We typically do not provide this information until after issuance of the audit. If the County expects that the audit will be issued on or near the deadline, and would like to receive a preliminary version of the F-65 prior to audit issuance, please notify us in advance. As noted above, there are certain sections of the F-65 that do not relate directly to the government’s trial balance or audited financial statements and will not be pre-populated with draft information by the auditors. The County may want to consider beginning the process of accumulating this data prior to receiving the draft sections/tabs from the audit team.

**Management representations.** In order to ensure that our audit files reflect sufficient documentation that our independence as the County’s independent auditors has not be impaired by performing this service, we will be asking the County to sign a letter of management representations upon delivery of the compiled F-65 information. The content and format will be similar to the representation letter signed for the financial statement audit (and single audit, if applicable). The representations will include a statement that management has designated a knowledgeable individual to review the information compiled by the auditors, complete the remaining sections of the F-65, and submit the completed document to the State of Michigan Department of Treasury. We ask that these representations be signed and returned to us promptly. We will not release the final document to management until we have received the signed representation letter.

We value the opportunity to continue working with the County. As always, please contact us with any concerns or questions. If you are in agreement with this letter of understanding, please sign and date on the lines provided below and return to us. Retain a copy for your records.

Very truly yours,

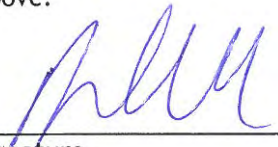
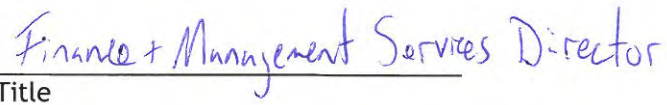
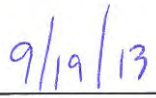
Rehmann Robson



Gregory L. LaPres, CPA  
Principal  
Executive responsible for coordinating and  
administering client services

Stephen W. Blann, CPA, CGFM, CGMA  
Principal  
Executive responsible for supervising the  
engagement and signing our report

On behalf of the County of Muskegon, I understand and agree to the services to be provided, as described above.

  
\_\_\_\_\_  
Signature  
\_\_\_\_\_  
Title  
\_\_\_\_\_  
Date