



December 23, 2020

City Council
City of Yachats
441 Highway 101 North
Yachats, Oregon 97498

Dear Council Members,

We are pleased to confirm our understanding of the services we are providing for the City of Yachats for the fiscal year ending June 30, 2021. We will audit the financial statements of the City of Yachats as of and for the fiscal year ending June 30, 2021. We will also audit the City of Yachats' compliance with Minimum Standards of Oregon Municipal Corporations prescribed by the Oregon Secretary of State.

Accounting standards generally accepted in the United States of America call for certain required supplementary information (RSI) to accompany the basic financial statements. The Governmental Accounting Standards Board also considers this information a necessary part of financial reporting as it provides perspective to the basic financial statements. Therefore, as a part of this engagement, we will apply limited procedures to the City of Yachats' RSI in accordance with auditing standards generally accepted in the United States of America (GAAS) and Minimum Standards of Oregon Municipal Corporations prescribed by the Oregon Secretary of State. These limited procedures will primarily consist of inquiries of management regarding their methods of measurement and presentation. However, we will not express an opinion or provide any assurance of this RSI as our limited procedures do not provide us with sufficient evidence to do so under our professional standards. Consequently, the financial statements we present to you will include the following RSI that will not be audited and, as such, our report will disclaim an opinion on this RSI:

- Management's Discussion and Analysis
- Modified Cash Basis Statement of Revenues, Expenditures and Changes in Fund Balances- Budget to Actual – General Fund and Major Special Revenue Funds

We also understand that supplementary information other than RSI will accompany the City of Yachats' basic financial statements. In accordance with GAAS, we will apply auditing procedures and other additional procedures deemed necessary to the following supplementary information accompanying the basic financial statements in order to provide an opinion on this information in relation to the financial statements as a whole:

- Budgetary Comparison Schedules- Modified Cash Basis- Major Funds other than the General Fund and Special Revenues Funds
- Combining Modified Cash Basis Balance Sheet- Nonmajor Governmental Funds
- Combining Modified Cash Basis Statement of Revenues, Expenditures, and Changes in Fund Balances- Nonmajor Governmental Funds
- Budgetary Comparison Schedules- Modified Cash Basis- Nonmajor Governmental Funds
- Budgetary Comparison Schedules- Modified Cash Basis-Major Enterprise Funds
- Budgetary Comparison Schedules- Modified Cash Basis-Nonmajor Enterprise Funds



Objective

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 generally accepted accounting principles and to report on the fairness of the additionally supplementary information referred to above when considered in relation to the financial statements taken as a whole.

Our audit will be conducted in accordance with GAAS. Our professional standards as defined by GAAS require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. As such, our audit will involve performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and will include tests of the accounting records of the City of Yachats and other procedures we consider necessary. The procedures we determine necessary will depend on our “auditor’s” judgement and will be based, in part, on our assessment of the risks of the material misstatement of the financial statements, whether due to fraud or error. If our opinion is other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or form an opinion, we may disclaim an opinion or not issue a report.

Audit Procedures

Our audit will involve performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and will include tests of the accounting records of the City of Yachats and other procedures we consider necessary. The procedures we determine necessary will depend on our “auditor’s” judgement and will be based, in part, on our assessment of the risks of material misstatement of the financial statements, whether from errors, fraudulent financial reporting, misappropriations of assets, or 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. 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. If we deem it appropriate, our procedures will also include tests of documentary evidence supporting the transactions recorded in the accounts, may include tests of the physical existence in inventories, and will include direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors and financial institutions. As part of our audit process, we will request written representation from your attorneys, and they may bill you for responding. At the conclusion of our audit, we will also request certain written representations from you about the financial statements and related matters. These representations will include acknowledging our assistance with the preparation of your financial statements, the supplementary information, and notes accompanying these documents, and that you have reviewed and approved these documents, approved their release, and that you have accepted responsibility for them.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, and unavoidable risk exists that some material misstatements may not be detected by our firm, even though our audit is properly planned and performed in accordance with GAAS and Government Auditing Standards. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors that come to our attention,



and we will inform you, or the appropriate level of management, of any fraudulent financial reporting or misappropriation of assets that comes to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential.

In making our risk assessments, we will consider internal controls relevant to the preparation and fair presentation of the City of Yachats' financial statements in order to design audit procedures that are appropriate in the circumstances. However, our audit procedures are not designed for the purpose of expressing an opinion on the effectiveness of your internal control. In accordance with our professional standards, we will communicate in writing to the appropriate level of management and to those charged with governance matters concerning any significant deficiencies or material weakness in internal control relevant to the audit of the financial statements that we identify during the audit.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will also perform tests of the City of Yachats' compliance with applicable laws and regulations and the provisions of contracts and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance, and we will not express such an opinion. Management maintains the responsibility for identifying and ensuring that the City of Yachats complies with applicable laws, regulations, contracts, and other agreements.

Our responsibility as auditors is, of course, limited to the period covered by our audit and does not extend to any other periods.

We will also prepare the financial statements of the City of Yachats in conformity with U.S. generally accepted accounting principles based on the information provided by you.

Teresa Hanford is the engagement partner for the audit services specified in this letter. Her responsibilities include supervising Hanford & Associates, LLC's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Responsibilities of Management and Those Charged with Governance

As part of our engagements, we may advise you about the appropriate accounting principles and their application; however, the management of the City of Yachats acknowledges and understands that the final responsibility for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America remains with you. This responsibility includes the financial statements, all accompanying information and the representations that accompany them. As such, the management of the City of Yachats is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Other management responsibilities include maintaining adequate records, selecting and applying accounting principles, and safeguarding assets.

By your signature below, you also acknowledge that the management of the City of Yachats is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements, and all accompanying information, that are



free from material misstatement, whether due to fraud or error. This responsibility includes 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 City of Yachats and the respective changes in financial position and where applicable, cash flows, in conformity with accounting principles generally accepted in the United States of America. In addition, management is also responsible for having appropriate programs and controls in place to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the organization that involves management, employees who have significant roles in internal control, regulators, and others where fraud could have a material impact on the financial statements. The management of the City of Yachats is also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud affecting the City of Yachats received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the City of Yachats complies with applicable laws and regulations for taking timely and appropriate actions to remedy any fraud, illegal acts, or violations of contracts and agreements. You agree that you will confirm your understanding of your responsibilities as defined in this letter to us in your representation letter.

Management is also responsible for the preparation and fair presentation of the supplementary information in conformity with accounting principles generally accepted in the United States of America. You agree that you will confirm your understanding of your responsibilities with respect to the supplementary information in your representation letter. You further agree to include our report on the supplementary information in any document that contains and indicates that we have reported on such supplementary information.

Management's responsibilities also include designating qualified individuals with the skill, knowledge, and experience to be responsible and accountable for overseeing financial statement preparation, tax services, and any other non-attest services we perform as part of this engagement, as well as, evaluating the adequacy and results of those services and accepting responsibility for them.

You further acknowledge and understand that management is responsible for providing us with access to all information management is aware of that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters; for the accuracy and completeness of the information that is provided to us; and for informing us of events occurring or facts discovered subsequent to the date of the financial statements that may affect the financial statements. This responsibility also includes providing us with any additional information that we may request from management for the purpose of the audit; as well as allowing us unrestricted access to individuals within the organization from whom we may determine if necessary to obtain audit evidence, including access to your designated employees who will type all confirmations we request.

Written Report

We expect to issue a written report upon completion of our audit of the City of Yachats' financial statements. Our report will be addressed to the City Council of the City of Yachats. We cannot provide assurance that an unmodified opinion will be expressed on the financial statements. Circumstances may arise in which it is necessary for us to modify our opinion, add emphasis-of-matter or other-matter paragraphs, decline to express an opinion or withdraw from the engagements.



Other Matters

We expect to begin our audit on approximately August 1st, 2021 and to issue our report by November 30th, 2021.

It is our policy to keep records related to this engagement for seven years. However, Hanford & Associates, LLC does not keep any original client records, so we will return those to you at the completion of the services rendered under this engagement. When records are returned to you, it is your responsibility to retain and protect your records for possible future use, including potential examination by government or regulatory agencies.

By your signature below, you acknowledge and agree that upon the expiration of the seven-year period, Hanford & Associates, LLC shall be free to destroy our records related to this engagement.

Our fee for these services will be \$10,000.00 for the audit of the financial statements and compliance to Minimum Standards of Oregon Municipal Corporations prescribed by the Oregon Secretary of State.

Our invoices for these fees will be rendered each month as work progresses and are payable upon presentation. In accordance with our firm's policies, work may be suspended if your account becomes 60 days or more overdue and may not be resumed until your account is paid in full. The above fee is based on the anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before incurring additional costs.

Should any litigation or adverse action (such as audits by outside organizations and/or threatened litigation, etc.), by third parties arise against the City of Yachats or its officers subsequent to this engagement, which results in the subpoena of documents from Hanford & Associates, LLC and/or requires additional assistance from us to provide information, depositions or testimony, the City of Yachats hereby agrees to compensate Hanford & Associates, LLC at our standard hourly rates for additional time charges and other costs (copies, travel, etc.), and to indemnify us for any attorney's fees to represent Hanford & Associates, LLC.

If any dispute arises among the parties hereto, the parties agree to first try in good faith to settle the dispute by mediation administered by the American Arbitration Association under its applicable rules for resolving professional accounting and related services disputes before resorting to litigation. The costs of any mediation proceeding shall be shared equally by all parties.

Client and accountant both agree that any dispute over fees charged by the accountant to the client will be submitted for resolution by arbitration in accordance with the applicable rules for resolving professional accounting and related services of the American Arbitration Association, except that under all circumstances the arbitrator must follow the laws of Washington State. Such arbitration shall be binding and final. IN AGREEING TO ARBITRATION, WE BOTH ACKNOWLEDGE THAT IN THE EVENT OF A DISPUTE OVER FEES CHARGED BY THE ACCOUNTANT, EACH OF US IS GIVING UP THE RIGHT TO HAVE THE DISPUTE DECIDED IN A COURT OF LAW BEFORE A JUDGE OR JURY AND INSTEAD WE ARE ACCEPTING THE USE OF ARBITRATION FOR RESOLUTION. The prevailing party shall be entitled to an award of



reasonable attorneys' fees and costs incurred in connection with the arbitration of the dispute in an amount to be determined by the arbitrator.

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

Very truly yours,

Teresa Hanford, Managing Member
Hanford & Associates, LLC

RESPONSE:

This letter correctly sets forth the understanding of the City of Yachats.

APPROVED:

Governmental Unit Representative
City of Yachats

Date