March 3, 2014

TO:        Local Agency Formation Commission  
FROM:  Executive Officer  
SUBJECT: LAFCO Audit Contract Renewal

Since 2012, the San Diego LAFCO has obtained audit services from Mayer Hoffman McCann P.C. (MHM) to conduct an audit of the Commission’s financial statements and a review of its leave balance system. After being retained by the Commission in 2012, MHM has conducted audits of LAFCO’s financial statements and leave balance system for fiscal years ending on June 30, 2009, 2010, 2011, 2012, and 2013. MHM was selected after completion of an extensive statewide selection process. Prior to the selection of MHM in 2012, the Commission received accounting services from a firm that was jointly selected by six other LAFCOs in Southern California, comprising the California Coalition of Local Agency Formation Commissions – CCL.

On February 3, 2014, the San Diego LAFCO’s Audit Committee (Chairman Vanderlaan, Vice Chairman Ingalls, Alternate Commission MacKenzie, and Alternate Commission Mathis) reviewed MHM’s past performance and concluded that the firm met and exceeded the Commission’s expectations. The Committee has accordingly recommended to the full Commission that MHM’s contract be renewed for three additional audits covering fiscal years 2013-14, 2014-15, and 2015-16, with a maximum optional extension (if approved by the Commission in 2017) for two additional fiscal years.

LAFCO staff reviewed the Audit Committee’s recommendation in relation to recently approved provisions contained AB 1345 (Lara). The Commission received an update about AB 1345 at the February 3rd meeting, and one of the AB 1345 restrictions prohibits local agencies from employing a public accounting firm to provide audit services if the lead audit partner or coordinating audit partner has performed audit services for the local agency for six consecutive fiscal years. For purposes of calculating the six consecutive fiscal years, the new law requires that local agencies not take into account any time that the audit firm was employed prior to FY 2013-14. In the case of MHM, the firm was employed by the Commission in FY 2013-14 to conduct the FY 2012-13 audit. Therefore, no further contract extensions can be permitted beyond the FY 2017-18 audit. MHM’s contract extension proposal is attached and includes a modest fee increase from $7,200 to $7,300 for the FY2013-14 audit and a $50 increase for each of the subsequent audits ($7,350 for fiscal year ending June 30, 2015; and $7,400 for fiscal year ending June 30, 2016). Refer to Attachment 1 for MHM’s Audit Engagement Letter (contract extension proposal).
In summary, by a unanimous vote, the Audit Committee recommends to the full Commission that MHM’s audit contract proposal be approved and that the Executive Officer be directed to approve up to three annual contract extensions with MHM to conduct audits and leave balance reviews for FY 2013-14, FY 2014-15, and FY 2015-16, with an option to approve another contract extension in 2016 covering FY 2016-17 and FY 2017-18. Contract extension(s) beyond the FY 2015-16 audit would require subsequent Commission authorization. (Motion made by Alternate Commissioner Mackenzie, seconded by Alternate Commissioner Mathis and carried unanimously by all Committee members present: Vanderlaan, Ingalls, MacKenzie, and Mathis). Therefore, it is

**Recommended:**

1. Review the MHM contract extension proposal contained in Attachment 1;

2. Approve the Audit Committee’s recommendation authorizing the Executive Officer to renew annual contracts with MHM, P.C to conduct audits and leave balance reviews for FY 2013-14, FY 2014-15, and FY 2015-16.

3. Include a provision in MHM’s new contract containing an option to extend the contract covering audits in FY 2016-17 and FY 2017-18, pending subsequent Commission authorization.

4. Include in MHM’s contract file, a copy of AB 1345 regarding contract renewal provisions/restrictions.

Respectfully Submitted,

MICHAEL D. OTT
Executive Officer

MDO:ra

**Attachment**

(1) MHM Audit Engagement Letter (FY 2013-14, FY 2014-15, and FY 2015-16)
January 6, 2014

San Diego Local Agency Formation Commission
C/O Michael D. Ott, Executive Officer
9335 Hazard Way, Suite 200
San Diego, CA 92123

Dear Members of the Commission:

We are pleased to confirm the arrangements of our engagement and the nature of the services we will provide the San Diego Local Agency Formation Commission (the "Authority"). This letter, which incorporates the attached Terms and Conditions, constitutes the entire agreement between the parties with respect to Mayer Hoffman McCann P.C.'s performance of the professional services described herein.

**ENGAGEMENT OBJECTIVES**

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 Entity's basic financial statements, as of June 30, 2014, 2015, and 2016 and for the years then ended, and the related notes to the financial statements.

Also, accounting principles generally accepted in the United States of America ("US GAAP") provide for certain required supplementary information ("RSI"), such as management's discussion and analysis ("MD&A"), to supplement the Entity's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 Entity's RSI in accordance with auditing standards generally accepted in the United States of America ("US GAAS"). 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 US GAAP and will be subjected to certain limited procedures, but will not be audited.

1. Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund
OUR RESPONSIBILITIES
The objective of our audit is the expression of an opinion as to whether the financial statements are fairly
presented, in all material respects, in conformity with US GAAP and to report on the fairness of the additional
information referred to above when considered in relation to the financial statements taken as a whole.

We will also provide a report, which does not include an opinion, on internal controls related to the financial
statements and compliance with the provisions of laws, regulations, contracts and grant agreements,
noncompliance with which could have a material effect on the financial statements as required by Government
Auditing Standards. The reports on internal control and compliance will each include a paragraph that states
the report is solely to describe the scope and testing of internal control over financial reporting and compliance,
and the results of that testing, and not to provide an opinion on the effectiveness of internal control over
financial reporting or on compliance and 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 that the report is not suitable for any other purpose.

Audit
Our audit will be conducted in accordance with US GAAS and the standards for financial audits contained in
Government Auditing Standards, issued by the Comptroller General of the United States, and will include tests
of the accounting records and other procedures we consider necessary to enable us to express such an
opinion. 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 is other than unmodified, we will fully discuss the reasons
with management in advance. If, for any reason, we are unable to complete the audit, or are unable to form or
have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this
engagement.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the
accounts (e.g., tests of the physical existence of inventories, direct confirmation of certain assets and liabilities
by correspondence with selected customers, creditors, and financial institutions, etc.). We may also request
written representations from the Entity’s attorneys as part of the engagement, and they may bill the Entity for
responding to this inquiry.

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 assurance
about whether the financial statements are free of material misstatement, whether from errors, fraudulent
financial reporting, misappropriation 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. 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 controls, 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 US GAAS. 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. We will inform the appropriate level of management and those charged with governance of any material errors, fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management and those charged with governance 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. 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.

Internal Control
Our audit will include obtaining an understanding of the Entity and its environment, including internal controls sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. 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. Tests of controls relative to the financial statements are required only if control risk is assessed below the maximum level. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to Government Auditing Standards.

An audit is not designed to provide assurance on internal controls or to identify control deficiencies. However, we will inform management and those charged with governance of internal control matters that are required to be communicated under professional standards.

Compliance
As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Entity’s compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to Government Auditing Standards.

The services described above do not relieve management or those charged with governance of their responsibilities.

THOSE CHARGED WITH GOVERNANCE
The preparation and presentation of the financial statements of the Entity are the responsibility of management with oversight from those charged with governance. Those charged with governance are also responsible for overseeing the strategic direction of the Entity and any obligations related to its accountability, resolving disagreements between management and us regarding financial reporting, appointing us to perform the services described above, and informing us about all known or suspected fraud involving the Entity. In turn, we will provide those charged with governance with any communications required by the professional standards described above.
MANAGEMENT'S RESPONSIBILITIES
Management is responsible for all management decisions and performing all management functions, and for designating an individual, preferably from senior management, with suitable skill, knowledge, or experience preferably within senior management, to oversee these services, any bookkeeping services, tax services, or other services we or our associated company CBIZ MHM, LLC provides. Management is responsible for evaluating the adequacy and results of the services performed and accepting responsibility for them.

Management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Management is also responsible for providing us with (a) access to all information they are aware of that is relevant to the preparation and fair presentation of the financial statements, (b) additional information that we may request for the purpose of this engagement, and (c) unrestricted access to persons within the Entity from whom we determine it necessary to obtain information.

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities, for the selection and application of accounting principles, for the safeguarding assets, and for the preparation and fair presentation of the financial statements in conformity with US GAAP even though we may assist management with their preparation. Accordingly, management may be required to acknowledge in the written representation letter our assistance with preparation of the financial statements and that management has reviewed and approved the financial statements and related notes prior to their issuance and has accepted responsibility for them.

Management is responsible for adjusting the financial statements to correct material misstatements and for confirming 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.

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 affecting the Entity involving (a) management, (b) employees who have significant roles in internal controls, and (c) others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of any known allegations of fraud or suspected fraud affecting the Entity received in communications from employees, former employees, regulators, or others. In addition, management is also responsible for identifying and ensuring that the Entity complies with applicable laws, regulations, contracts, agreements, and grants and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

OTHER SERVICES
The Entity must obtain our written consent before including its financial statements and our report in an offering or other document, or otherwise distributing our report or referencing our Firm in connection with an offering. Management agrees to provide reasonable notice to allow sufficient time for us to perform certain additional procedures. Management will also provide us with a copy of the final reproduced material for our approval before it is distributed. Our fees for such services are in addition to those discussed elsewhere in this letter, and the specific terms of any such future services will be determined at the time the services are to be performed.

As a result of our prior or future services, we might be requested to provide information or documents to the Entity 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 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 the request. For all requests, we will observe the confidentiality requirements of our profession and will notify management promptly of the request.

**ENGAGEMENT FEES**

We agree to a non-to-exceed fee including out-of-pocket expenses to complete the audit as follows:

<table>
<thead>
<tr>
<th>Fiscal year ending June 30, 2014</th>
<th>$6,700</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal year ending June 30, 2015</td>
<td>6,750</td>
</tr>
<tr>
<td>Fiscal year ending June 30, 2016</td>
<td>6,800</td>
</tr>
</tbody>
</table>

Our fees are based upon the complexity of the work to be performed, timing of the engagement, experience level of the personnel required, and estimates of the professional time to complete the required services. Our fees do not include expenses in connection with these services, such as for travel, copies and printing, postage, etc., which will be billed separately.

Additionally, our fees are dependent on the availability, quality, and completeness of the Entity’s records and, where applicable, upon the Entity’s personnel providing the level of assistance identified in the “prepared by client” request list distributed at the end of our planning work (e.g., Entity employees preparing confirmations and schedules we request, locating documents selected by us for testing, etc.).

Should our assumptions with respect to these matters be incorrect, or should the condition of the records, degree of cooperation, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based, we may adjust our fees and planned completion dates. If significant additional time is necessary, we will discuss it with management and arrive at a new fee estimate as soon as reasonably practicable. In addition, fees for any related projects, such as proposed business combinations or research and/or consultation on special business or financial issues, will be billed separately from the fee referred to above and will be subject to separate arrangements.

We consider telephone calls and meetings on accounting and reporting matters to be an integral part of the engagement and no additional fees are charged for these services. If, however, there is a significant transaction or new accounting issue that requires us to spend a substantial amount of time that was not anticipated in our fees, there may be additional billings.

The fee estimate above assumes no adjustments will be necessary for routine accounting entries normally made before the beginning of the engagement. If, for any reason, we are asked to assist in the preparation of these entries, before beginning this service, we will provide an estimate of the time required to perform such services and the additional fees to be billed.

Invoices will be submitted as the work progresses and a final invoice will be submitted upon completion of the services. Invoices are payable upon receipt. If our invoices for this, or any other engagements the Entity may have with us, are not paid within 30 days, we may suspend or terminate our services for this and any other engagements. In the event our work is suspended or terminated as a result of nonpayment, the Entity agrees we will not be responsible for any consequences.
OTHER ENGAGEMENT MATTERS
This letter and the attached Terms and Conditions set forth the rights and responsibilities of the parties with respect to the services to be provided. The Terms and Conditions are an integral part of this agreement. This engagement is being undertaken solely for the benefit of the parties to this agreement and no other person shall be entitled to enforce the terms of this agreement.

Enclosed, as required by Government Auditing Standards, is a copy of the report on the most recent peer review of our firm.

The undersigned is the engagement shareholder responsible for supervising the engagement and signing the report.

We appreciate the opportunity to provide these services and believe this letter accurately summarizes the significant terms of our engagement. Please sign the enclosed copy of this letter and return it to us.

Very truly yours,

Jennifer Farr, CPA
Mayer Hoffman McCann P.C.

The services and arrangements described in this letter are in accordance with our understanding and are acceptable to us.

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

MANAGEMENT
By__________________________
Title________________________
Date________________________

GOVERNANCE*
By__________________________
Title________________________
Date________________________

* Engagement letter does not need to be signed by a member of governance if evidence of Commission approval at a Commission meeting is provided instead of a signature.
System Review Report

To the Shareholders of Mayer Hoffman McCann P.C.
and the AICPA National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Mayer Hoffman McCann P.C. (the Firm) applicable to non-SEC issuers in effect for the year ended April 30, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

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

In our opinion, the system of quality control for the accounting and auditing practice of Mayer Hoffman McCann P.C. applicable to non-SEC issuers in effect for the year April 30, 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. Mayer Hoffman McCann P.C. has received a peer review rating of pass.

Clifton Gunderson LLP

August 12, 2011

10700 Research Dr., Suite 200
Milwaukee, Wisconsin 53226
tel: 414.476.1880
fax: 414.476.7286

www.cliftoncpa.com
Mayer Hoffman McCann P.C.
Engagement Letter
Terms and Conditions

A. Services. These Terms and Conditions and the engagement letter (the "Engagement Letter") to which these Terms and Conditions are attached (these Terms and Conditions, the Engagement Letter are collectively referred to as the "Agreement") constitute the entire agreement between the entity identified in the accompanying Engagement Letter (the "Client" or "you") and Mayer Hoffman McCann P.C. ("MHM"), regarding the services described in the Engagement Letter ("Services").

B. Ownership. Client shall own the copyright in all written material originated and prepared for and delivered to the Client under this Agreement. However, MHM’s workpapers, files, and MHM Confidential Information (as defined below) belong exclusively to MHM. The ideas, concepts, know-how, techniques, inventions, discoveries, and improvements developed during the course of this Agreement by MHM personnel, alone or in conjunction with Client personnel, may be used by MHM in any way it deems appropriate, including without limitation by or for its clients or customers, without any obligation to account, notwithstanding any provision in this Agreement to the contrary. MHM is in the business of providing attestation services for a wide variety of clients, and the Client understands that MHM will continue these activities. Accordingly, nothing in this Agreement shall preclude or limit MHM from providing attestation services, consulting services, and/or developing software or materials for itself or other clients, irrespective of the possible similarity of materials that might be delivered to the Client.

C. Confidentiality. MHM agrees that all financial, statistical, marketing, and personnel data relating to the Client’s business, and other information identified as confidential by the Client, are confidential information of the Client ("Client Confidential Information"). The Client agrees that MHM’s proprietary software, tools, and other methodologies and any other information identified as confidential by MHM are confidential information of MHM ("MHM Confidential Information"). Client Confidential Information and MHM Confidential Information are collectively referred to as "Confidential Information." Each party shall use Confidential Information of the other party only for the purposes of this Agreement and shall not disclose such Confidential Information to any third party without the other party's prior written consent, other than to MHM subcontractors hired in connection with this engagement, if any, and to each other's employees on a need-to-know basis in connection with this engagement. Each party agrees to take measures to protect the confidentiality of the other party’s Confidential Information that, in the aggregate, are no less protective than those measures it uses to protect the confidentiality of its own Confidential Information, but at a minimum, each party shall take reasonable steps to advise their employees (and, in the case of MHM, its subcontractors, if any) of the confidential nature of the Confidential Information and of the prohibitions on copying or revealing such Confidential Information contained herein. MHM and the Client each agree to require that the other party's Confidential Information be kept in a reasonably secure location.

Notwithstanding anything to the contrary contained in this Agreement, Client may convey MHM’s comments and thoughts to Client’s outside counsel and investment bankers provided Client accurately describes the terms, including the limitations, of MHM’s engagement. Furthermore, neither party shall be obligated to treat as confidential, or otherwise be subject to the restrictions on use, disclosure, or treatment contained in this Agreement for any information disclosed by the other party (the “Disclosing Party”) that: (i) otherwise has been or becomes publicly available (including, without limitation, any information filed with any governmental agency and available to the public) other than as the result of a disclosure in breach hereof, (ii) is disclosed by the Disclosing Party to a third party without substantially the same restrictions as set forth herein, (iii) becomes
available to the non-Disclosing Party on a non-confidential basis from a source other than the Disclosing Party, which the non-Disclosing Party does not believe is prohibited from disclosing such information, (iv) is known by the non-Disclosing Party prior to its receipt from the Disclosing Party without any obligation of confidentiality with respect thereto, or (v) is developed by the non-Disclosing Party independently of any disclosures of such information made by the Disclosing Party to the non-Disclosing Party.

Neither party will be liable to the other for inadvertent or accidental disclosure of Confidential Information if the disclosure occurs notwithstanding the party's exercise of the same level of protection and care that such party customarily uses in safeguarding its own confidential information. Notwithstanding the foregoing, either party will be entitled to disclose Confidential Information of the other to a third party to the extent required by valid legal or regulatory process, provided that (and without breaching any legal or regulatory requirement) the party to which the request is made provides the Disclosing Party with prompt written notice and allows the Disclosing Party to seek a restraining order or other appropriate relief.

We may be requested to make certain workpapers or files available to certain regulatory agencies pursuant to authority given to it by law or regulation. If requested, access to such workpapers will be provided under the supervision of MHH's personnel. Furthermore, upon request, we may provide photocopies of selected workpapers to certain regulatory agencies. Certain regulatory agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

**D. Client Responsibilities.** Client agrees to provide reasonable workspace, administrative support, computer facilities, and other support, which are necessary to perform the Services, including providing high-speed Internet access to our engagement team, if practicable, while working at the Client premises. Client agrees to perform those tasks in a timely fashion and provide the personnel agreed to by the parties. Client personnel assigned to work on matters related to this engagement will be qualified for the tasks for which they are assigned. MHH's performance is dependent on Client carrying out its responsibilities as set out in this Agreement. Client's failure to satisfy its responsibilities under this Agreement may lead to an increase in our fees, depending upon the extent to which we have to perform additional work or reschedule our commitments to deliver the Services, or our inability to provide the Services. Should Client fail to perform any of its obligations under this Agreement, MHH shall not be responsible for any delay or other consequences due to such failure.

**E. Fees and Payment.** Client shall pay MHH the fees set forth in the Engagement Letter. Client shall also be responsible for paying any taxes (such as applicable sales taxes, duties, or goods and services taxes) for which it is legally liable arising from this Agreement. Our invoices will be issued as set out in the Engagement Letter. All invoices will be due upon receipt unless stated otherwise in the Engagement Letter. Services rendered after the expiration of the term of the engagement or in addition to the scope contemplated herein and in the Engagement Letter, such as meetings, planning, etc., will be billed separately at our hourly rates.

**F. Term and Termination; Survival.** This Agreement is effective from the commencement date stated in the Engagement Letter, if any, or where no commencement date is specified, from the date of signature by both parties. If MHH commenced the performance of the Services prior to the execution of this Agreement, this Agreement shall nonetheless cover the performance of such Services. This Agreement will continue until the services and deliverables have been provided unless it is terminated earlier in accordance with the terms set out herein. MHH shall be under no duty to update or revise its opinion or report, once issued, unless expressly engaged to do so by the Client, and MHH shall be under no duty to accept any such engagement. If we accept such an engagement, we will be required to perform certain procedures required by generally accepted auditing standards.
Either party may terminate this Agreement upon written notice to the other party irrespective of whether MHM has completed the Services. Client will be responsible for fees and expenses incurred through the date the termination notice is received. Where Client terminates this Agreement, Client also will pay MHM for additional costs incurred as a result of the termination.

The following sections of this Agreement will survive completion of the Services or its earlier termination: Confidentiality, Ownership, and such other provisions of this Agreement which by their nature are intended to survive.

G. General. This Agreement forms the entire agreement between the parties relating to the Services, and replaces and supersedes any previous proposals, correspondence, understandings, and any other communications, whether written or oral. This agreement shall be binding on all transferees, successors, and assigns of both MHM and you. Neither party shall be liable to the other for any delay or failure to perform any of the services or obligations set forth in this Agreement due to causes beyond its reasonable control. Each party acknowledges that this was a negotiated contract, and as a result, no part of this contract shall be construed against either party based on drafting of the contract. If any provision of this Agreement is determined to be invalid under any applicable statute or rule of law, it is to that extent to be deemed omitted, and the balance of the Agreement shall remain enforceable. The section headings used herein are for reference and convenience only and shall not enter into the interpretation hereof.

No delay or omission by either party in exercising any right or power shall impair such right or power or be construed to be a waiver. A waiver by either party of any of the covenants to be performed by the other or any breach thereof shall not be construed to be a waiver of any succeeding breach or of any other covenant. No waiver or discharge shall be valid unless in writing and signed by an authorized representative of the party against whom such waiver or discharge is sought to be enforced.

It is common practice for professional service firms, in discussions with prospective clients to make reference to prior work, and we would like to have the opportunity to do so with respect to this engagement. On completion of this engagement, MHM will be entitled to use the Client’s name, logo(s), and a brief description of the Services in MHM newsletters, publications, or other marketing materials, as well as discussions with prospective clients.

H. Leased personnel. In performing our engagement we will lease professional and administrative staff, both of which are employed by CBIZ MHM, LLC or its related entities. These individuals will be under the direct control and supervision of MHM, which is solely responsible for the professional performance of our engagement. Additionally, the professional staff is subject to the standards governing the accounting profession, including the requirement to maintain the confidentiality of client information, and MHM and CBIZ MHM, LLC and its related entities have contractual agreements requiring confidential treatment of all client information.

MHM will use all reasonable efforts to perform the Services in accordance with any agreed upon timeframe. MHM has every expectation that this engagement will be conducted by the professionals designated for this engagement. If for any reason any of those individuals are not able to complete this engagement, professionals with similar qualifications and experience will be assigned to the engagement. Where any changes are necessary, MHM will give Client reasonable notice of the changes.
I. **Independent Contractor.** It is understood and agreed that each of the parties hereto is an independent contractor and that neither party is, nor shall be considered to be, an agent, partner, joint venturer, or representative of the other. Neither party shall act or represent itself, directly or by implication, as an agent of the other or in any manner assume or create any obligation on behalf of, or in the name of, the other.

J. **Employment offers to our personnel.** During the term of this Agreement and for a period of one year thereafter, the parties agree not to hire, solicit, or attempt to solicit, whether directly or indirectly, the services of any staff, employee, consultant, or subcontractor of the other party without the prior written consent of that party. Violation of this provision shall, in addition to other relief, require the breaching party to compensate the non-breaching party with 100 percent of the solicited person's annual compensation.

Professional standards require us to be independent with respect to the Company in the performance of our services. Any discussions that the Company has with personnel of MHM, CBIZ MHM, LLC, or related entities regarding potential employment with the Company could impair our independence with respect to this engagement. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence and objectivity. Employment offers to any staff member working on your engagement without our prior knowledge may require substantial additional procedures to ensure the independence and objectivity of our engagement. Any additional costs incurred due to these procedures will be fully billable in addition to our fee.

K. **Safe Environment.** You agree that in any circumstances wherein MHM personnel are required to work at any premises or location operated or controlled by you, you will take all actions and precautions necessary to ensure that Client premises are free from all known or reasonably foreseeable safety hazards, and all forms of harassment and discrimination.

L. **Property.** The workpapers and files that MHM generates in connection with this engagement are the property of MHM. Upon the termination of this engagement, upon request we will return your original records to you. All MHM workpapers and files will be retained, pursuant to MHM's document retention policy.

M. **Electronic Communication.** In the interest of facilitating our services to you, we may communicate by facsimile transmission or by sending electronic mail over the Internet. Such communications may include information that is confidential to you. Our firm employs measures in the use of facsimile machines and computer technology designed to maintain data security. While we will use our best efforts to keep such communications secure in accordance with our obligations under applicable laws and professional standards, we have no control over the unauthorized interception of these communications once they have been sent.

With regard to the electronic dissemination of financial statements, including financial statements published electronically on your Internet website, you understand 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. You agree that you shall bear the risk of any inconsistency between the electronic document and the original document.

N. **Governing Law and Severability.** This Agreement shall be governed by, and construed in accordance with, the laws of the State in which MHM personnel rendering the attest services are located (without giving effect to the choice of law principles thereof). If any provision of this Agreement is found by a court of competent jurisdiction to be unenforceable, such provision shall not affect the other provisions, but such unenforceable provision shall be deemed modified to the extent necessary to render it enforceable, preserving to the fullest extent permissible the intent of the parties set forth in this Agreement.
O. Dispute Resolution. Because there are inherent difficulties in recalling or preserving information as the period after an engagement increases, you agree that, notwithstanding any applicable statute of limitations, any claim based on this engagement must be filed within 24 months after performance of our service for continuing clients and 12 months for clients who discontinue their relationship with MHM, unless you have previously provided us with a written notice of a specific defect in our services that forms the basis of the claim.

If any dispute, controversy, or claim of any kind or type, whether based on contract, tort, statute, regulation, or otherwise, arises out of, or connected with, or relating in any way to this Agreement, or the relationship or the obligations of the parties, including without limitation any dispute as to the existence, validity, construction, interpretation, negotiation, performance, non-performance, breach, termination, or enforceability of this Agreement (the “Dispute”), and if (in the opinion of any party) the Dispute cannot be settled through direct discussions between the parties, the parties agree to first endeavor to resolve the Dispute through mediation under the Commercial Mediation Rules of the American Arbitration Association (“AAA”), before resorting to filing a lawsuit or to otherwise seek to enforce any party's rights. In both direct discussions and in mediation, the parties will exert their best efforts to discuss with each other in good faith their respective positions in an attempt to finally resolve the Dispute. The parties agree to share equally the costs and expenses of the mediation (which shall not include the costs incurred by each party for its own legal representation in connection with the mediation).

Each party may disclose any facts to the other party or to the mediator which it, in good faith, considers necessary to resolve the matter. All such discussions, however, will be for the purpose of assisting in settlement efforts and will not be admissible in any subsequent litigation against the disclosing party. Except as agreed by both parties, the mediator will keep confidential all information disclosed during negotiations. The mediator may not act as a witness for either party in any subsequent arbitration between the parties. The mediation proceedings will conclude within 60 days from receipt of the written notice unless extended or terminated sooner by mutual consent. Each party will be responsible for its own expenses. The fees and expenses of the mediator, if any, will be borne equally by the parties.

If the parties cannot resolve the Dispute through mediation, either party may pursue action in a court of competent jurisdiction as set forth in these Terms and Conditions. Each of the parties irrevocably waives any right to trial by jury in any such action or in any other proceeding arising out of or relating to the Dispute or this Agreement.

P. Limitation on Damages. Unless otherwise prohibited by law or applicable professional standard, you agree that MHM and its personnel shall not be liable to you for any claims, liabilities, or expenses relating to this engagement for an aggregate amount in excess of the fees paid by you to MHM pursuant to this engagement, except to the extent finally judicially determined to have resulted from the bad faith or intentional misconduct of MHM. Unless otherwise prohibited by law or applicable professional standard, in no event shall MHM or its personnel be liable for consequential, special, indirect, incidental, punitive, or exemplary losses or damages relating to this engagement. This limitation on liability provision shall apply to the fullest extent of the law, whether in contract, statute, tort (such as negligence), professional standard, or otherwise.
January 6, 2014

San Diego Local Agency Formation Commission
 c/o Michael D. Ott, Executive Officer
 9335 Hazard Way, Suite 200
 San Diego, CA 92123

We are pleased to confirm the arrangements of our engagement and the nature of the services we will provide the San Diego Local Agency Formation Commission (the “Commission”). This letter, which incorporates the attached Terms and Conditions, constitutes the entire agreement between the parties with respect to Mayer Hoffman McCann P.C.’s performance of the professional services described herein.

ENGAGEMENT OBJECTIVES
We will apply the agreed-upon procedures which the Commission has specified, listed in the attached schedule, related to employee leave balances as of and for the years ended June 30, 2014, 2015, and 2016.

The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attached schedule either for the purpose for which this report has been requested or for any other purpose. If, for any reason, we are unable to complete the procedures, we will describe any restrictions on the performance of the procedures in our report, or will not issue a report as a result of this engagement.

OUR RESPONSIBILITIES
Our engagement to apply agreed-upon procedures will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Because the agreed-upon procedures listed in the attached schedule do not constitute an examination, we will not express an opinion on the subject matter described above. In addition, we have no obligation to perform any procedures beyond those listed in the attached schedule.

We will submit a report listing the procedures performed and our findings. This report is intended solely for the use of theSpecified Parties, and should not be used by anyone other than these Specified Parties. Our report will contain a paragraph indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

MANAGEMENT’S RESPONSIBILITIES
Management of the Client is responsible for making all management decisions and performing all management functions, and for designating an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management to oversee these services. Management of the Client is responsible for
evaluating the adequacy and results of the services performed and accepting responsibility for the results of such services.

Management of the Client is responsible for the presentation of the subject matter in accordance with the criteria. Management of the Client is responsible for selecting the criteria and for determining that such criteria are appropriate. Management of the Client is responsible for establishing and maintaining internal controls, including monitoring ongoing activities.

At the conclusion of our engagement, we will require a representation letter from management of the Client that, among other things, will confirm their responsibility for the presentation of the subject matter in accordance with stated criteria, as described above.

OTHER SERVICES
As a result of our prior or future services, we might be requested to provide information or documents to the Specified Parties 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 Client 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 the request. For all requests we will observe the confidentiality requirements of our profession and will notify management of the Client promptly of the request.

ENGAGEMENT FEES
Our fees for these services will be $600 for each fiscal year.

Our fees are based upon the complexity of the work to be performed, timing of the engagement, experience level of the personnel required, and estimates of the professional time to complete the required services. Our fees do not include expenses in connection with these services, such as for travel, copies and printing, postage, etc., which will be billed separately.

Additionally, our fees are dependent on the availability, quality, and completeness of your records and, where applicable, personnel providing the level of assistance identified in the request list distributed at the end of our planning work. Should our assumptions with respect to these matters be incorrect or should the condition of the records, degree of cooperation, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based, we may adjust our fees and planned completion dates. If significant additional time is necessary, we will discuss it with management of the Client and arrive at a new fee estimate as soon as reasonably practicable. In addition, fees for any related projects or research and/or consultation on special business or financial issues, will be billed separately from the fee referred to above and will be subject to separate arrangements.

We consider telephone calls and meetings on accounting and reporting matters to be an integral part of the engagement and no additional fees are charged for these services. If, however, there is a significant transaction or new accounting issue that requires us to spend a substantial amount of time that clearly was not anticipated in our fees, there may be additional billings.

Invoices will be submitted as the work progresses and a final invoice will be submitted upon completion of the services. Invoices are payable upon receipt. If our invoices for this, or any other engagements the Client may have with us, are not paid within 30 days, we may suspend or terminate our services for this or any other
engagements. In the event our work is suspended or terminated as a result of nonpayment, the Specified Parties agree we will not be responsible for any consequences.

OTHER ENGAGEMENT MATTERS
This letter and the attached Terms and Conditions set forth the rights and responsibilities of the parties with respect to the services to be provided. The Terms and Conditions are an integral part of this agreement. This engagement is being undertaken solely for the benefit of the parties to this agreement, and no other person shall be entitled to enforce the terms of this agreement.

The undersigned is the engagement shareholder responsible for supervising the engagement and signing the report.

We appreciate the opportunity to provide these services and believe this letter accurately summarizes the significant terms of our engagement. Please sign the enclosed copy of this letter and return it to us.

Very truly yours,

Jennifer Farr, CPA
Mayer Hoffman McCann P.C.

The services and arrangements described in this letter are in accordance with our understanding and are acceptable to us.

San Diego Local Agency Formation Commission

By____________________________________
Executive Director

Date___________________________________
Exhibit A  
SAN DIEGO LOCAL AGENCY FORMATION COMMISSION  
Agreed-Upon Procedures

Our employee leave balance procedures will be as follows:

1. We will obtain and analyze the San Diego LAFCO leave policy in order to gain an understanding of the policies relating to vacation, sick and compensatory time off.

2. We will obtain an understanding of the internal controls relating to the accumulation of the leave balance information for all employees in order to determine the adequacy of those procedures over tracking employee leave balances.

3. We will obtain a Leave Balance Worksheet detailing beginning and ending leave balances by employee for every pay period from July 1, 201X to June 30, 201X and recalculated ending balances for each employee to ensure mathematical accuracy.

4. We will obtain Office Attendance Records detailing each employee’s hours worked and leave time taken for every pay period during the period July 1, 201X to June 30, 201X. We will recalculate balances of sick, vacation and compensated leave taken for each employee for mathematical accuracy and agree the activity to the related information on Leave Balance Worksheet.

5. We will agree the beginning leave balance of each Leave Balance Worksheet to the ending leave balance on the previous Leave Balance Worksheet for all Leave Balance Worksheets to determine if there were any adjustments to the balances.

6. We will review fiscal year end balances by employee to ensure the accrued vacation leave was less than two times annual accrual, which is the maximum accrual per LAFCO’s policy. If the leave balances exceeded the maximum, we obtained evidence of the Executive Officer’s approval.

7. For employees who did not work a full 40 hours, we will recalculate each employee’s accrued hours based on hours worked for each pay period.

8. We will recalculate the value of compensated leave based on hours reported on the Leave Balance Worksheet and salary information obtained on year end Payroll Registers.