

SAN SABA COUNTY

INDEPENDENT AUDIT OF
COUNTY FINANCIAL CONDITION

FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 2010, 2011, AND 2012

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CONTACT NAME: KEVIN SHAHAN
DATE: August 24, 2010

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August 24, 2010

Honorable County Judge and Commissioners
of the Commissioners' Court of San Saba County, Texas

I am pleased to confirm my understanding of the services I am to provide San Saba County, Texas (the Organization) for the years ended September 30, 2010, 2011, and 2012. I will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely component units, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of San Saba County as of September 30, 2010, 2011, and 2012 and for the years then ended. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement San Saba County'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 my engagement, I will apply certain limited procedures to San Saba 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 my 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 Cash Receipts and Cash Disbursements Compared with Budget by Major Fund

Supplementary information other than RSI also accompanies San Saba County's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, 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 Balance Sheets by Major Fund
2. Combining Statements of Revenues, Expenditures, and Changes in Fund Balance by Major Fund
3. Schedule of Cash Receipts and Disbursements Compared with Budget for Nonmajor, Capital Projects, and Fiduciary Grant Funds

Audit Objectives

The objective of my audit is the expression of opinions about whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the basic financial statements taken as a whole. My audit will be conducted in accordance with auditing standards generally accepted in the United States of America 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 of San Saba County and other procedures I consider necessary to enable

me to express such opinions. If my opinions on the financial statements are other than unqualified, I will fully discuss the reasons with you in advance. If, for any reason, I am unable to complete the audit or am unable to form or have not formed opinions, I may decline to express opinions or to issue a report as a result of this engagement.

I will also provide a report (that does not include an opinion) 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 as required by *Government Auditing Standards*. The report on internal control and compliance will include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties. If during my audit I become aware that San Saba County is subject to an audit requirement that is not encompassed in the terms of this engagement, I will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

Management's Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audit, I will assist with preparation of your financial statements and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; to help ensure that appropriate goals and objectives are met; for the selection and application of accounting principles; and 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 San Saba County and the respective changes in the financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to me and for ensuring that management and financial information is reliable and properly recorded. Management's responsibilities include adjusting the financial statements to correct material misstatements and for confirming to me in the representation letter that the effects of any uncorrected misstatements aggregated by me during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing me about all known or suspected fraud 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. Your responsibilities include informing me of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring the entity complies with applicable laws, regulations, contracts, agreements, and grants for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report. You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to

include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to [present the supplementary information with the audited financial statements OR make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon].

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 me 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 me corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. You are also responsible for providing management's views on my current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Audit Procedures – General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, my audit will involve judgment about the number of transactions to be examined and the areas to be tested. I 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 the abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute, assurance and because I will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me. 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, I will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to my attention. I will also inform you of any violations of laws or governmental regulations that come to my attention, unless clearly inconsequential. My responsibility as an auditor is limited to the period covered by my audit and does not extend to any later periods for which I am not engaged as an auditor.

My procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. I will request written representations from you attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of the audit, I will require certain written representations from you about the financial statements and related matters.

Audit Procedures – Internal Control

My audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that I 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. My 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 my report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, I will communicate to management and those charged with governance internal

control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

Audit Procedures - Compliance

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

Engagement Administration, Fees, and Other

At the conclusion of the engagement, I will provide copies of my reports to San Saba County; however management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Kevin Shahan, CPA and constitutes confidential information. However, pursuant to authority given by law or regulation, I may be requested to make certain audit documentation available to representatives of a cognizant agency 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. I will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Kevin Shahan, CPA. Furthermore, upon request, I 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 date or for any additional period requested by a federal or state awarding agency. If I am aware that a federal awarding agency or auditee is contesting an audit finding, I will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

I expect to begin my audit on approximately August 20th and to issue the report no later than January 31st. I will make all presentations to the Commissioners' Court and can be reached at the phone number above.

I estimate that my fees for these services will be \$18,600.00 for fiscal years ending September 30, 2010, 2011, and 2012. My invoices for the fees will be rendered periodically as work progresses and are payable on presentation. In accordance with my firm policies, work may be suspended if your account becomes 60 days or more overdue and will not be resumed until your account is paid in full. If I elect to terminate my services for nonpayment, my engagement will be deemed to have been completed upon written notification of termination, even if I have not completed my report. You will be obligated to compensate me for all time expended through the date of termination. The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, I will discuss it with you and arrive at a new fee estimate before I incur the additional costs. In the event a single audit is required for any of the fiscal years, I will submit an additional audit fee for the period. I anticipate this fee will be a maximum of \$6,000 each year for which a Single Audit is performed. These fees can be charged against the grant administration of the grant under audit.

You may request that I perform additional services not contemplated by this engagement letter. If this occurs, I will communicate with you regarding the scope of additional services and the estimated fees. I also may issue a separate engagement letter covering the additional services. In the absence of any other written communication from me documenting such additional services, my services will continue to be governed by the terms of this engagement letter.

Government Auditing Standards require that I provide you with a copy of my most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of contract. My 2009 peer review report accompanies this letter.

I appreciate the opportunity to be of service to San Saba County and believe this letter accurately summarizes the significant terms of my engagement. If you have any questions, please let me know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to me.

Sincerely,



Kevin Shahan, CPA

Response:

This letter correctly sets forth the understanding of the County of San Saba.

Officer signature: _____



Title: _____

Co. Justice

Date: _____

SEP 13, 2011

II. SCOPE OF SERVICES TO BE PERFORMED:

The scope of services to be performed includes an expression of an opinion on the financial statements as presented by San Saba County, Texas for the fiscal years ended September 30, 2010, 2011 and 2012. I will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely component units, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of San Saba County as of September 30, 2010, 2011, and 2012 and for the years then ended.

I will also provide a report (that does not include an opinion) 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 as required by *Government Auditing Standards*. The report on internal control and compliance will include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties. If during my audit I become aware that San Saba County is subject to an audit requirement that is not encompassed in the terms of this engagement, I will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

III. Proposer's Qualifications

1. The firm, Kevin Shahan, CPA, currently has one practicing CPA and one additional associate, Rosie Huff.
2. Kevin Shahan is a Certified Public Accountant, license no. 076191. I am currently practicing public accounting in San Saba, Texas and have a valid "practice unit license" from the Texas State Board of Public Accountancy (TSBPA).
3. I am a member in the TSCPA Peer Review Program sponsored by the AICPA. My most recent peer review was performed in 2009 and my firm has met the requirements for an unmodified report. See attached most recent peer review report performed by Mr. Gerald Nelson.
4. I have met the continuing education requirements contained in the 2003 revision of Government Auditing Standards revised by the General Accounting Office and the Comptroller General of the United States in order to work on governmental audit engagements.
5. Kevin Shahan, CPA will be in charge of the audit and will supervise any other associates that will be performing duties for the audit.
6. In the prior three years, my experience includes audits of the following entities:
 - a. San Saba County Texas (single audit applicable in FY05, FY08, FY09)
 - b. City of San Saba, Texas
 - c. Texas Architectural Aggregate, Inc.
 - d. San Saba Central Appraisal District
 - e. North San Saba Water Supply Corp
 - f. Chapman Motor Sales, LP
 - g. Millican and Martin, Inc.

**AICPA Peer Review Program
and TSCPA Peer Review Program**
Administered by the Texas Society of CPAs



July 15, 2010

Kevin Shahan, CPA
Kevin Shahan, CPA, LLC
304 N Cherokee
San Saba, TX 76877

Dear Mr. Shahan:

It is my pleasure to notify you that on July 12, 2010 the Texas Society of CPAs 2009-10 Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is February 28, 2013. This is the date by which all review documents should be completed and submitted to the administering entity. If your due date falls between January and April, you can arrange to have your review a few months earlier to avoid having a review during tax season.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,

Jerry L. Cross, CPA
Director, Peer Review
jcross@tscpa.net

800 428-0272

cc: Gerald Nelson, CPA

Firm Number: 4178188

Review Number: 302457



GERALD D. NELSON, P.C.
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System Review Report

January 18, 2010

To the Shareholder of
Kevin Shahan, CPA, LLC
and the Peer Review Committee of the Texas Society of CPAs

I have reviewed the system of quality control for the accounting and auditing practice of Kevin Shahan, CPA, LLC (the firm) in effect for the year ended August 31, 2009. My 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. My responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on my 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 *Government Auditing Standards*.

In my opinion, the system of quality control for the accounting and auditing practice of Kevin Shahan, CPA, LLC in effect for the year ended August 31, 2009, 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*. Kevin Shahan, CPA, LLC has received a peer review rating of *pass*.

Gerald D. Nelson, P.C.

Gerald D. Nelson, P.C.