Pursuant to Policy 5.4, four firms responded to the District's request for proposals to provide audit services and their bids are included with your board packet for your consideration. Their audit methodologies appear to be basically the same.

Anticipated fees and expenses:

Maze & Associates, Pleasant Hill –
$15,915 current fee and willing to keep rates the same for the next five years

Vavrinek, Trine, Day & Co. (VTD), Palo Alto –
$17,040 with the same rate for the next five year

MGO CPAs, Walnut Creek –
$19,000 for 2010-2011 audit services

Fechter & Company, CPAs, Sacramento –
$14,700 with 2.5% increase for following years

After review, it is staff's recommendation to continue with Maze & Associates. They are thorough, yet timely, responsive and familiar with the District's accounting system and activities.

We were also very satisfied with the services provided by VTD, District auditors prior to Maze, and they are staff's second recommendation.

MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

February 18, 2011

Mr. Lee Michelson
Chief Executive Officer
Sequoia Healthcare District
525 Veterans Blvd.
Redwood City, CA 94063

Dear Lee:

We are pleased to confirm our understanding of the services we are to provide for the Sequoia Healthcare District for the year ended June 30, 2011. The services we have been engaged to provide are outlined below, but we are also available to provide additional services at your request:

1) Audit of the Basic Financial Statements.

2) Preparation of the Memorandum on Internal Control Structure.

3) State Controllers Office Annual Report

Audit Objective

The objective of our audit is to express opinions on whether your financial statements are fairly presented in all material respects in conformity with generally accepted accounting principles in the United States of America and to report on the fairness of accompanying supplemental information when considered in relation to the basic financial statements taken as a whole. Our audit will be conducted in accordance with generally accepted auditing standards in the United States of America; and will include tests of accounting records, and other procedures we consider necessary to enable us to express such an opinion. If our opinion on the financial statements is other than unqualified, we will fully discuss the reasons with District 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.

Management Responsibilities

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; for the fair presentation of financial position of the District's various activities, major funds, and the aggregate remaining fund information and changes in financial position and, where applicable, cash flows in conformity with U.S. generally accepted accounting principles. Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein.

As part of the audit, we will prepare a draft of your financial statements and related notes. The Finance Department will be required to review and approve those financial statements prior to their issuance and have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements. Further, you are required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

Management is responsible for making all financial records and related information available to us. We understand that the District will provide us with the Closing Checklist information required for our audit and that the District is responsible for the accuracy and completeness of that information. Management 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.

The District is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud or illegal acts could have a material effect on the financial statements. The District is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud or illegal acts affecting it received in communications from employees, former employees, grantors, regulators, or others. In addition, the District is responsible for identifying and ensuring that it complies with applicable laws and regulations.

Audit Procedures - General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Also, we will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District.

Because of the concept of reasonable assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance, fraud or other illegal acts, may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements, immaterial illegal acts, or illegal acts that do not have a direct effect on the financial statements. We will advise the District of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the District of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include 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. We will request written representations from your attorneys as part of the engagement, and they may bill the District for responding to this inquiry. At the conclusion of our audit we will also require certain written representations from management about the financial statements and related matters.

Audit Procedures - Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the District's compliance with certain provisions of laws, regulations, contracts, 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.

Audit Procedures - Internal Controls

Our audit will include obtaining an understanding of the District 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. An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under professional standards.

Audit Administration, Fees, and Other

The audit documentation for this engagement is our property and constitutes confidential information. However, pursuant to District given by law or regulation, we may be requested to make certain audit documentation available to a federal agency providing oversight of direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Maze & Associates personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

Our fees for these services are billed based on our contract with the District. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if the District's account becomes thirty days or more overdue and may not be resumed until the District's account is paid in full.

These fees are based on anticipated cooperation from District personnel, the completion of schedules and data requested on our Checklists, and the assumption that there will be no unexpected increases in work scope, such as new debt issues, etc., or delays which are beyond our control, as discussed on the Fees Attachment to this letter. If significant additional time is necessary, we will discuss it with District management and arrive at a new fee before we incur any additional costs.

We understand you will provide us with basic workspace sufficient to accommodate the audit team assigned to your audit. We understand the basic workspace will be equipped with a telephone and direct Internet access, preferably a temporary network outside of your network, a public IP address and a wired connection. We understand you will also provide us with access to a fax machine and read only access to your general ledger system.

Government Auditing Standards require that we provide the District with a copy of our most recent quality control review report. Our most recent peer review report accompanies this letter.

We appreciate the opportunity to be of service to the District 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.

Maze + Associates

Maze & Associates

RESPONSE:
This letter correctly sets forth the understanding of the District.

By: _____

Title: _____

Date: _____

Sequoia Healthcare District Engagement Letter
Fees Attachment
June 30, 2011

Our fees for the work described in the attached engagement letter will be as follows, unless they are adjusted for one or more of the items below:

Service	Fees
Basic Financial Statements and Memorandum on Internal Control Report	$15,065
State Controllers Report	850
Total	$15,915

2011 Fees - Our recurring fees have not been adjusted for 2011.

Additional Services - The above fees are for audit and assurance services described in the accompanying engagement letter. They do not include fees for assisting with closing the books nor providing other accounting services. Should the District require assistance beyond audit services we have included a separate Fees for Accounting Services list of services that we have provided to our clients.

Report Finalization - Our fee is based on our understanding that all information and materials necessary to finalize all our reports will be provided to us before we complete our year-end fieldwork in your offices. In the case of financial statements, this includes all the materials and information required to print the financial statements. As in the past, we will provide final drafts of all our reports before we leave your offices. We will schedule a Final Changes Meeting with you for a date no more than two weeks after we complete our fieldwork. At that meeting, we will finalize all reports for printing. After that date, report changes you make and changes required because information was not received timely will be billed at our normal hourly rates.

Post-Closing Client Adjusting Entries - The first step in our year-end audit is the preparation of financial statement drafts from your final closing trial balance. That means any entries you make after handing us your closing trial balance must be handled as audit adjustments, or in extreme cases, by re-inputting the entire trial balance, even if the amounts are immaterial. If you make such entries and the amounts are in fact immaterial, we will bill you for the costs of the adjustments or re-input at our normal hourly rates.

Recurring Audit Adjustments - Each year we include the prior year's adjusting entries as new steps in our Closing Checklist, so that you can incorporate these entries in your closing. If we are required to continue to make these same adjustments as part of this year's audit, we will bill for this service at our normal hourly rates.

Grant Programs Requiring Separate Audit - Grant programs requiring separate audits represent a significant increase in work scope, and fees for these audits vary based on the grant requirements. If you wish us to determine and identify which programs are subject to audit, we will bill you for that time at our normal hourly rates.

Changes in District Personnel - Our experience is that changes and /or reductions in Finance Department staff can have a pronounced impact on costs of performing the audit. If such changes occur, we will meet with you to assess their impact and arrive at a new fee before we begin the next phase of our work. However, we reserve the right to revisit this subject at the conclusion of the audit, based on your actual performance and our actual costs.

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

March 8, 2011

Mr. Lee Michelson
Chief Executive Officer
Sequoia Healthcare District
525 Veterans Boulevard
Redwood City, CA 94063

Dear Mr. Michelson:

We are pleased to respond to the request for proposal to provide audit services for the Sequoia Healthcare District (the District). We feel that Vavrinek, Trine, Day & Co., LLP (VTD) is the best selection for the District. This proposal demonstrates our capability and commitment to serve.

VTD provides governmental auditing services to over 300 governmental agencies, including but not limited to special districts, counties and cities throughout California. We understand the District requirements and will provide a timely audit conducted in a professional manner.

Commitment to Quality of Services

VTD has devotes substantial time and resources developing our governmental audit practice. Our governmental clients are provided with efficient and timely audits. Our expertise in this industry has positioned us to be one of the leading firms in governmental auditing throughout California. This investment of time and resources includes:

- Providing in excess of 80 hours per year of governmental continuing professional education (CPE) to our staff working on governmental audits.
- Participating in national sessions lead by the AICPA, OMB, GAO, and OIG relating to all areas of governmental auditing.
- Providing several training sessions to industry groups and clients regarding the new GASB statements including GASB 54 reporting requirements for fund balance.
- Retaining key staff; as a result we are able to provide our clients with unmatched staffing consistency and well trained personnel.
- Researching new professional pronouncements so that we are at the leading edge in preparing our clients to respond to all new requirements.
- Devoting resources to a strict quality control program including the funding of a quality control department.

Very truly yours,

Vavrinek, Trine, Day & Co., LLP
Ahmad Gharaibeh
Partner

260 Sheridan Ave. Palo Alto CA 94306 Tel: 650.462.0400 Fax. 650.462.0500 www.vtdcpa.com

FRESNO • LAGUNA • PALO ALTO • PLEASANTON • SACRAMENTO • RANCHO CUCAMONGA

1. Our Proposed Audit Approach/Plan, (Continued)

Project Management – Overall Audits

As noted in the Organizational Chart and Team Identification section of our proposal, the audit team consists of well experienced partners, one manager, and one senior and staff as needed. The management of the District's audit will be undertaken by these personnel who each have worked on the similar governmental audits in previous years.

Our audit plan for each of the fiscal years involves five (5) stages for each audit. These stages are:

Stage 1, Planning
Stage 2, Risk Assessment
Stage 3, Preparation of the overall audit plan
Stage 4, Conducting the Audit
Stage 5, Reporting

Stage 1, Planning

VTD will meet with key staff to plan the audit services for the year. These meetings will discuss all audit issues and the proposed interim work plan. During this phase, we will accomplish:

- Identifying the key personnel and contacts in the Finance Department and other departments.
- Identify the District's significant classes of transactions and business processes.
- Obtain an understanding of audit risk areas.
- Developing an understanding of unusual transactions or events that have occurred during the fiscal year.
- Formalizing logistics.
- Finalizing the timeframes for fieldwork.

We will provide you a prepared by client listing (PBC) that details by specific task and will include the due dates and names of the persons responsible for each task.

1. Our Proposed Audit Approach/ Plan, (Continued)

Stage 2, Risk Assessment

Based upon the information obtained in the planning meetings VTD will perform a risk assessment as required by Statements on Auditing Standards (SAS) to be used in the preparation of the overall audit plan. As part of this risk assessment we will perform the following:

1. Obtain an understanding of the entity and its environment and its risks and material compliance requirements. VTD will refer to the District's prior year financial statements, annual budget document, government code and other relevant documentation to assist with our understanding of the District's business environment and risks. VTD will also conduct inquiry with key individuals within the District who are responsible for executing the District's strategic plan.
2. Obtain an understanding of the entity's internal controls. VTD will refer to the District's organizational charts, written policies and procedures financial accounting systems to assist with our understanding of internal controls. VTD will also perform inquiry, observation, inspection and walk-throughs of key internal controls to ensure these key controls are properly designed and implemented.
3. Preliminary analytical review, determination of preliminary materiality levels.
4. Analysis of known misstatements, if any.
5. Consideration of risk of material misstatement at the individual account balance, class of transactions and disclosure level.
6. Assessing the risks of material misstatement at both the financial statement and relevant assertion levels.
7. Assess the risk of material noncompliance with laws and regulations that have a direct and material effect on the financial statements.

Stage 3, Preparation of the overall audit plan

Once the planning and risk assessment process are complete an overall audit plan will be prepared. The plan will specify each audit task, staffing assignments and timelines.

1. Our Proposed Audit Approach/ Plan, (Continued)

Stage 3, Preparation of the overall audit plan, (Continued)

We will also prepare:

The preliminary materiality guidelines, the audit programs, including consideration of:

- Identification of areas where special audit considerations are necessary.
- Design of further audit procedures to reduce risk if considered necessary.
- The development of expectations for analytical procedures, timelines, and assignment of all audit responsibilities.

Stage 4, Conducting the audit

We will obtain an understanding of the District's internal control structure starting with:

1. Defining the District's objectives and strategies and related business risks.
2. Obtaining an understanding of the District's internal control environment (tone at the top):
   - Communication and enforcement of integrity and ethical values
   - Participation of those charged with governance
   - Organizational structure
   - Assignment of authority and responsibility
   - Human resource policies and practices
3. The District's risk assessment process.
4. Internal control communication process.
5. Internal control monitoring process.
6. Any industry, regulatory or other factors.

1. Our Proposed Approach/Audit Plan, (Continued)

Stage 4, Conducting the audit, (Continued)

We will also obtain an understanding of the design and implementation of the financial reporting system to understand the follow of information for:

1. Each class of transactions that is significant to the financial statements.
2. The procedures within both automated and manual systems, by which those transactions are initiated, authorized, recorded, processed, and reported in the financial statements.
3. The related accounting records, whether in electronic or manual supporting information, and specific accounts in the financial statements involved in initiating, authorizing, recording, processing and reporting transactions.
4. How the information systems captures events and conditions other than classes of transactions that are significant to the financial statements.
5. The financial reporting process used to prepare the District's financial statements, including significant accounting estimates and disclosures.

Other areas to be completed at the interim audit include SAS No. 99 interviews and documentation.

Discuss workable solutions for potential findings that have been identified and communicated to the District during the audit process.

We will perform substantive audit procedures on the year-end statement of net assets, revenue and expenditure/expense accounts. We will use a variety of audit procedures which may include outside confirmations, statistical sampling, and detailed testing of schedules, analytical review, inquiry, and observation.

1. **Our Proposed Approach/Audit Plan, (Continued)**

Stage 5, the Reporting Phase

At the end of the audit process we will meet with key staff to cover the following:

- Discuss improvements for subsequent years audit plan,
- Meet with the appropriate level of management to present the results of the audit,
- Communicate with those charged with Governance.

2. **Communication**

We do not believe in surprises. Although the reporting phase involves a recap of the process we will be in constant communication regarding the each aspect of the audit throughout the entire process. You will not have any surprises at the end of the audit.

3. **Management letters**

The results of our understanding of internal control serve as a basis for our recommendations to management. We also consider any weaknesses noted during our substantive testing and other audit procedures. Upon completion of the audit, the findings and recommendations we consider to be of value to you are summarized and presented as management comments.

We will meet with management to discuss these comments prior to finalizing the letter to ensure that our management letter will contain no surprises. The purpose of our management comments is to direct your attention to:

- Significant deficiencies and material weaknesses (if any) identified during the course of the audit. Statement on Auditing Standards, Number 115 requires written communication to management and those charged with governance, of significant deficiencies or material weaknesses, identified during the audit.

- Other matters that we believe to be of potential benefit to the management of the District, such as recommendations for operational or administrative efficiency, or for improving existing internal controls.

Appendix B *SCHEDULE OF PROFESSIONAL FEES*

Anticipated Staffing and Fees

Professional Staff	Number of Hours	Rate per Hour *	Total
Partners	16	$ 180	$ 2,880
Managers	25	120	3,000
Seniors	124	90	11,160
			$17,040
		2010-11	$17,040
		2011-12	$17,040
		2012-13	$17,040
		2013-14	$17,040
		2014-15	$17,040

** Our standard hourly rates have been discounted by approximately 30% to arrive to the rates shown above*

Hello, and thank you.

Our approach, like our proposal that follows, is all about clear communication, innovation, a willingness to go the extra mile, and full transparency, because that's what it takes to deliver an ironclad audit.

We are pleased to present our proposal to provide audit services to the Sequoia Health District (District).

The District requires a seasoned engagement team with demonstrated expertise meeting the accounting and financial reporting needs of forward-thinking organizations. As you continue to evolve and grow in serving your community, you'll need a CPA firm that offers resources to help you proactively plan and manage your objectives. You'll also need a service provider that will be there, in-person, every step of the way.

Following is an overview of why MGO is uniquely qualified to provide you with efficient and responsive professional services.

David Bullock

David Bullock, CPA
Proud to be a Boring Accountantant
MGO Partner

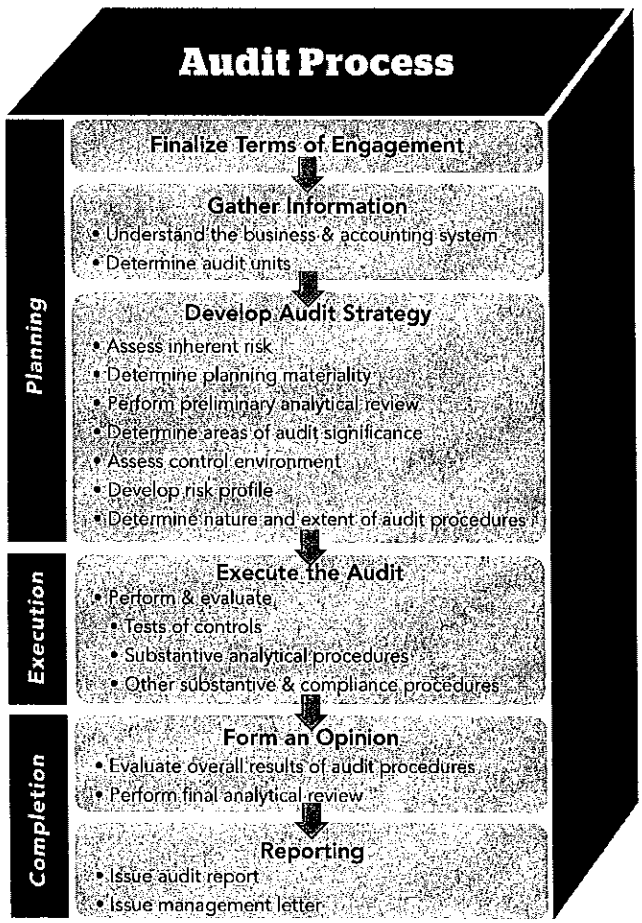
We admit it: we're boring accountants, and we love what we do. That's why our approach to auditing is so ironclad.

Our approaches to internal controls and control risk are intertwined with our overall audit approach as described below:

MGO General Audit Approach

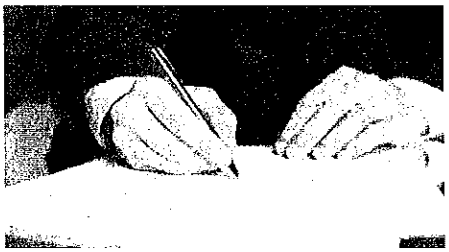
The Auditing Standards Board recently issued a suite of eight new auditing standards, the Risk Assessment Standards. The standards represent a significant strengthening of auditing standards that will improve the quality and effectiveness of audits. Specifically, the standards enhance the application of the audit risk model by requiring auditors to obtain a more in-depth understanding of the audit client and its environment, perform a more rigorous assessment of risk of material misstatement in the financial statements and improve linkage between assessed risks and the audit procedures performed in response to those risks.

In response to these changes, MGO has adopted the structure of the audit approach as set out in the diagram to the right.



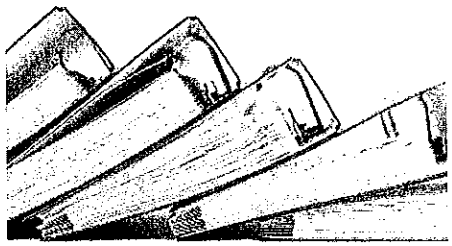
Your MGO Ironclad Audit involves 6 clearly defined steps:

Our audit approach is tailored to meet the specific needs of each client. We will leverage off of our experience base and build upon our deep understanding of your operations. As conditions change, we will continue to develop our understanding of critical audit areas through comprehensive audit planning and risk assessment.



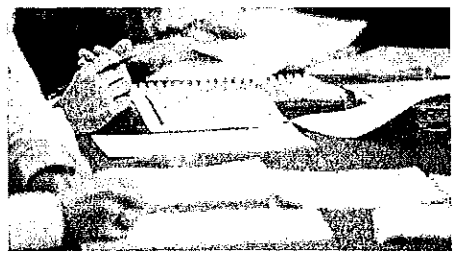
Step 1. Agree Terms of Engagement.

We first agree with the client the objectives of the engagement and the nature and timing of our reports.



Step 2. Gather Information.

We develop an understanding of the client's business, information system and organization, and the ways in which management exercises control.



Step 3. Develop Audit Strategy.

Based on our knowledge, we then move to a detailed assessment of the risks potentially affecting the financial statements. A client-specific audit strategy is then developed, focusing our audit efforts on financial statement areas where there are significant risks of material misstatement, whether due to fraud or error. We select those procedures which will provide us with the necessary evidence with optimum timing and efficiency.

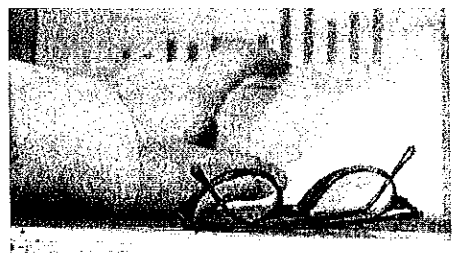
Throughout the audit process we gain knowledge which, combined with our general experience and expertise, provides us with a unique insight into operations and for opportunities for identifying improvements, not only with respect to accounting and information systems but also regarding broader, and often more significant areas such as organizational structure and financial planning. This insight is often a source of valuable business advice which would be communicated to the District.

Step 4. Execute Audit.

We then perform the selected audit procedures, ensuring that they are carried out by staff who have a level of experience and knowledge relevant to the planned procedures. The results are evaluated to determine whether we have sufficient appropriate audit evidence or whether additional procedures need to be performed.

Step 5. Form Opinion.

We draw together all the evidence we have obtained and consider whether we have obtained reasonable assurance that the risk of material misstatement has been reduced to an appropriately low level.



Step 6. Report.

We issue our report, ensuring that it is a clear expression of opinion on the financial statements. In addition we report on other matters covered by the terms of our engagement.

Cost Effective.

Value for Fees.

Our fee philosophy is to foster long-term client relationships by offering fair and competitive pricing.

As an independent member of the BDO Alliance, we are able to offer the breadth and depth of resources of a national firm combined with the fee levels and personalized attention of a local firm.

Added Value.

MGO provides clients with access to our firmwide training programs delivered through a variety of mediums, including CD-ROMs, webinars and live trainings. For example, in the last year, we held a webinar on "GASB 51: Accounting and Financial Reporting for Intangible Assets."

Fee Proposal.

We estimate the cost for your audit at our standard billing rates by level of experience for the current year as follows:

Cost Summary	Hourly Rate	Hours	Cost
Engagement Partner	$ 400	3	$ 1,200
Technical Review Partner	$ 400	1	400
Manager	$ 250	16	4,000
Senior	$ 150	40	6,000
Staff	$ 120	60	7,200
Clerical	$ 100	2	$ 200
			$ 19,000

March 7, 2011

Ms. Jenine Johnson, Director of Finance
Sequoia Healthcare District
525 Veterans Blvd
Redwood City, CA 94063

Dear Ms. Johnson:

Fechter & Company, Certified Public Accountants, is pleased to present our proposal to provide audit services to the Sequoia Healthcare District (the District). We believe our audit approach and the credentials within the resumes of our team will demonstrate our qualifications, competence, and capacity to perform the audit services requested in the time frame required by The District.

Fechter & Company is committed to producing The District's audit reports in a timely manner. Our commitment is such that if the reports are not produced to The District as required, unless such delay is the responsibility of The District, Fechter & Company will present invoices for that year for 80% of the amount quoted for the price of the audit.

This proposal is a firm and irrevocable offer valid for 60 days after the date of the proposal. Craig R. Fechter, CPA, the firm's President, will be authorized to make representations for the firm and to sign for and obligate the firm contractually to The District. Mr. Fechter is at 1870 Avondale Avenue Suite 4, Sacramento, CA 95825, and can be reached by telephone at 916-333-5360. The firm is in compliance with the registration and permit requirements to engage in the practice of public accounting in California.

We believe that you will find our firm to be the one most qualified and prepared to serve the District in the capacity of auditor and accounting and management advisors and look forward to a long working relationship with you and your management team.

Very Truly Yours,

Craig R. Fechter, CPA
Fechter & Company, Certified Public Accountants

Specific Audit Approach

Fechter & Company, CPAs, is run as a professional corporation and was formed April 16, 2005. We provide finance consulting and auditing services to governmental entities. Specifically our target clients are special districts with annual budgets of less than $50,000,000.

SPECIFIC AUDIT APPROACH

We anticipate the engagement to be divided into the following segments:

- Initial preparation and planning procedures
- Preliminary analytical procedures, report preparation, cash and other confirmations, and information gathering techniques
- Field work procedures
- Post-field work activities (following up on pending items, collection of all confirmation letters, etc.)
- Report finalization and final analytical procedures
- Report delivery and board of directors' presentation

Initial preparation and planning procedures:

During this phase we plan to accomplish the following:

1. Conduct an initial meeting with the staff from Sequoia Healthcare District as soon as our proposal is approved in order to begin to establish a relationship with those we would be working with. During this meeting we will deliver a "client participation schedule" which would detail out the items we would need provided by the District for the audit. During this meeting we would also gather information as to the District's bankers, attorneys, prior accountant and contacts within San Mateo County. We would also resolve any ambiguities or questions we or the District might have about the services we are to perform.

2. Once the meeting had been conducted we would begin contacting these individuals in order to make inquires as required by *Government Auditing Standards.*

3. We would begin to develop audit plans for each individually significant area by examining the prior year financial statements and developing expectations for the upcoming year.

Specific Audit Approach (continued)

Fechter & Company, CPAs, is run as a professional corporation and was formed April 16, 2005. We provide finance consulting and auditing services to governmental entities. Specifically our target clients are special districts with annual budgets of less than $50,000,000.

SPECIFIC AUDIT APPROACH (continued)

Preliminary analytical procedures, report preparation, cash and other confirmations and information gathering techniques:

During this phase of the audit we plan on accomplishing the following:

1. Preliminary analytical procedures – the primary focus of an audit is to develop expectations and compare actual financial results against those expectations. While performing preliminary analytical procedures, we would compare current year results against prior period results and budgetary expectations against actual results.

2. Report preparation – our approach differs from that of other firms – our goal is to have the financial statements prepared prior to field work. We believe that by having this accomplished we are better equipped to audit the financial statements since having them completed allows us to take a big picture approach as opposed to a "piece-meal" approach that other firms take.

3. Cash and other confirmations – during this portion of the audit, we will send out confirmation letters to confirm cash with the bank, any material year-end accounts or grants receivable, grants or donations received during the year, debt outstanding at the end of the year, or any other financial transaction that we consider material to the financial statements as a whole. Due to the unique nature of the Sequoia Healthcare District (the number of grants given to non-profits) we would anticipate confirming the grants that were given to non-profits throughout the year by the District. It is this portion of the audit that we would prepare those confirmations.

4. Information gathering techniques – we would obtain the information requested to the District in the client participation schedule and any other associated report that would be required.

5. Sample sizes and usage of statistical sampling – our sampling selection process has three categories of consideration. First - what is the purpose of the test; is it for attribute testing or balance testing? Second, is the population or process susceptible to fraud or defalcation? Third, are the individual transactions small and numerous or large and infrequent in number?

Specific Audit Approach (continued)

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SPECIFIC AUDIT APPROACH (continued)

Our testing of revenues and disbursements processes focuses on the attributes of the transactions. The purpose of these samples is to determine that the attribute which we are testing is being applied to the transaction as approved by the District's Management and Board; not to determine if a balance is valued properly.

For example, our disbursements test has two purposes – first, we need to test the attributes of the items selected. An example of attributes testing is to compare the amounts posted to the general ledger and agree the amounts to invoices and canceled checks. Were the invoices properly approved? Did the proper individuals sign the canceled checks? Did the District to out to bid as required by District policies? Secondly, since disbursements have potential for fraud and defalcation, we would select additional items to test with the only purpose of having a trained auditors' eye examine any transactions out of the ordinary that appear in your detailed general ledger.

Therefore, for our disbursements process testing, we may randomly select 60 items based on the results of a random number generator and select another 10-20 items by scanning the detailed general ledger. This results in an overall sample of 70-90 invoices to confirm compliance with management's approved procedures.

Overall, our sample sizes will be determined based on the objective of the test, the population to be sampled and the risk associated with that population. The sample size required will highly depend on the relative size of the population to which we will apply auditing procedures, the purpose of the test and whether or not we will be able to properly stratify populations into individually significant and individually insignificant items.

6. Approach to be taken to gain and document an understanding of the District's internal control structure – as part of our initial planning, we will forward internal control questionnaires to district personnel to complete for the audit. Once complete, we will review the questionnaires and narratives and we will compare against established procedures the District may have (purchasing procedures, fixed asset purchases, cash and check collections, etc.). We will then proceed to audit each area of internal controls that will materially affect the audit. We would expect to audit controls over disbursements and purchasing, fixed asset inventory

Specific Audit Approach (continued)

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SPECIFIC AUDIT APPROACH (continued)

procedures, billing procedures, cash handling procedures, payroll, approval of grants to non-profits, and budgeting.

7. Approach to be taken in determining laws and regulations that will be subject to audit test work – we will examine any pertinent grant agreements or other items and determine the effect on the District and audit them, if considered necessary. We will pay close attention to federal grants received as they have a high risk of being audited by the pertinent federal agency.
8. Risk assessments – we are required by generally accepted auditing standards to assess the risks of material misstatement and fraud as part of our planning. After gaining an understanding of internal controls and evaluating potential weaknesses, and also after our conducting preliminary analytical procedures, we will assess which areas of the audit we consider to carry more risk than others. Our audit will then focus on the areas of higher risk so we can effectively mitigate the risk of material misstatement.

Field work procedures:

We would anticipate spending approximately 3-4 days at the District's offices to complete fieldwork. We would perform numerous procedures – testing of cash deposits, internal control testing over disbursements, payroll, revenues, and procedures specific to the Healthcare District. Again, due to the unique nature of the District, we would anticipate confirming many of the grants given to outside parties – we would obtain a detailed listing of grants given during the year and verify that each one was properly approved. We would then proceed to confirm the grants with each of the outside parties to verify that each organization received a grant as was prescribed.

Due to the unique natures of the revenues received, we would also confirm many of the revenues with third parties as well. We would confirm property tax revenues with the County of San Mateo and we would also examine and recalculate the EBIDA calculation the District receives on the income from Catholic Healthcare West.

Due to the nature of the investments held, we would also verify that the District's investment policy conforms with State of California regulations.

Compensation

The cost proposal is as follows.

COMPENSATION:

The below fee quote is for the general financial statement audit, tax return preparation, and all other services listed in this proposal and the District's request for proposal:

Mr. Craig Fechter, 80 hours @ $125 per hour	$ 10,000
Mr. Lamar Edwards, 80 hours @ $100 per hour	8,000
Less professional discount	(4,000)
Total Maximum Fee, June 30, 2011 Fiscal Audit:	**$ 14,000**

The above fee quote is a fixed price to be charged for all services rendered in connection with the audit. Our best understanding is that the following must be performed – performing auditing standards under GASB standards, preparing the financial statements, and preparation of the Special Districts financial transactions report as required by the California State Controller. **We will default to what the request for proposal defines as needed services should any questions arise.**

Total administrative and travel costs will also be billed and will not exceed $700 per year. These are in addition to the regular auditing fee.

The fees for audits in the following year are estimated to increase by approximatley 2.5% per year, sufficient to cover a cost of living increase. However, one item that makes our firm UNIQUE is that we will index our audit fees to your main revenue source (property taxes) so in the event of a drop, our auditing fees will also decrease. We realize the tremendous budgetary pressures on government agencies in these times and this will help you achieve maximum budgetary flexibility.