

Agenda Item No. 3. B.

Board of Directors Meeting

Date 8-23-05

***Proposal to Provide
Financial Audit Services***

SEQUOIA HEALTHCARE DISTRICT

June 30, 2005

**Vavrinek, Trine, Day & Co., LLP
Contact Person: Thomas A. Brewer, Partner
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Proposal to Provide Financial Audit Services

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AVAILABLE ON DISTRICT WEBSITE.

WWW.SEQUOIAHEALTHCAREDISTRICT.COM



June 30, 2005

Stephani F. Scott, CEO
Sequoia Healthcare District
170 Alameda de las Pulgas,
Redwood City, CA 94062

Dear Ms. Scott:

Vavrinek, Trine, Day & Co.,LLP. (the Firm) would like to thank you for the opportunity to present an audit proposal for the independent audits of Sequoia Healthcare District (the District) for each of the three years ending June 30, 2007.

We wish to point out some of the reasons why we believe we are the right firm to provide the District with the requested audit services:

- We specialize in the governmental sector. We have spent over 50 years building up our expertise in this area. We also specialize in providing a high level of client service to all of our clients.
- We have provided audit services to the District for several years and are familiar with the District. I was involved for the first time in the prior year, incident to our firm's merger with Pearson Del Prete, and will be the primary partner on the engagement. In addition, we are assigning a second partner to your account, Mr. Leonard Danna, who will be responsible for second partner review and technical consultations. This will provide the District with continuity while also ensuring a new partner perspective.
- Our audit plan provides for a significant amount of partner time. I will be on-site during the audit process and will maintain a hands-on approach to serving the needs of the District. In addition, we are assigning a second partner to your account, Mr. Leonard Danna, who will be responsible for second partner review and technical consultations.

Our proposal addresses the information requested in the District request for proposal of June 2, 2005. Should you require any additional information or clarification of any of the items in our proposal, please do not hesitate to call me directly at (650) 462-0400. Once again, thank you for the opportunity to propose.

Yours very truly,

Thomas A. Brewer, Partner
of VAVRINEK, TRINE, DAY & Co., LLP.

Profile of Vavrinek, Trine, Day & Co., LLP

Profile of Vavrinek, Trine, Day & Co., LLP

Independence

Vavrinek, Trine, Day & Co., LLP is a large regional firm with offices located in Palo Alto, Pleasanton, Rancho Cucamonga, Fresno, and Laguna Hills, and is organized in the form of a limited liability partnership. Each partner of the Firm is independent of the Sequoia Healthcare District in accordance with the Standards for Audit of Governmental Organization, Programs, Activities and Functions.

There has been no disciplinary action by any State regulatory body or professional organization taken or pending against the Firm during the past three years.

License to Practice in California

Vavrinek, Trine, Day & Co., LLP is licensed to practice public accounting in the State of California and has complied with all applicable California State Board of Accountancy requirements. In addition, all of the key professional staff that will be assigned to the District are also licensed to practice in the State of California and have complied with all applicable State Board of Accountancy standards.

Background

Since the inception of our firm, Vavrinek, Trine, Day & Co., LLP has specialized in governmental and nonprofit accounting and auditing. We have performed over 3,000 audits and/or financial and management reviews.

We have been the auditors for the District for several years (through Pearson, Del Prete) and we also audit several other special districts, including the Peninsula Health Care District. Firm-wide, we audit more than over 60 special districts, cities, counties, and joint powers agencies.

In addition to the governmental agencies, our firm provides auditing and tax services to numerous bank and business entities throughout California.

Our Staff

We currently have 25 CPA partners who are active in the area of performing government related audits. We have a professional staff of approximately 150 personnel firm-wide.

Our Local Offices

We have offices in Palo Alto and Pleasanton. We have a total of seven partners and a combined professional staff of 30. We propose to primarily staff this engagement with personnel from Palo Alto office with additional Partner and staff support as may be necessary from our Pleasanton office. If the need arises, we can also utilize staff from our Rancho Cucamonga office.

Staff Training

Because of the extensive governmental audit practice we have firm-wide, **all** of our professional staff must meet GAO Yellow Book standards for continuing professional education. We meet this requirement by providing in-house training programs specific to the needs of our staff. We have segmented our practice into separate practice groups and each staff person receives training both in general governmental topics such as Single Audit, FASB and GASB updates, audit documentation standards, etc., as well as industry specific audit training that covers topics unique to that practice sector. We hold training for our staff twice a year. Each staff will receive, at a minimum, 40 hours per year in firm sponsored training. We supplement this training with additional training courses given by outside third parties, mainly for personnel at the supervisor through partner levels, on topics that are deemed to be of value in providing services to our clients. For example, we always have staff representation at GFOA audit related conferences or training sessions.

**Partner,
Supervisory
and Staff
Qualifications
and Experience**

We will use only full-time audit staff members from our San Jose, Palo Alto and Rancho Cucamonga Offices to conduct the required audits. The staff for the proposed audit services will include:

		<u>Governmental Experience</u>
Partner	Thomas Brewer	29 years
Partner	Leonard Danna	30 years
Manager	Heather Maire	7 years

A brief description of the key members of the audit team and their areas of audit responsibility follows:

Thomas Brewer, Partner, will serve as the partner-in-charge of the engagement. In this capacity, Mr. Brewer will have overall responsibility for the audit engagements to be performed. Specific allocation of Mr. Danna's time on this job are provided in the Segmentation of Hours detail provided in the Compensation section of this proposal. Mr. Danna will also be primarily responsible for the preparation of the District financial reports.

Leonard Danna, Partner, will be responsible for the independent second partner review of the working papers and the financial statement drafts for the District.

Heather Maire, Manager, will serve as the on-site manager in charge of the field-work for the 2005-6 and 2006-7 engagements. Heather was manager on the engagement in the prior year and will be available for consultation but depending on the commencement date for the audit may not be available for the 2004-05 field work due to family leave. If Heather is not available for the field work, the work will be performed by the Partner or other experienced managers from Palo Alto or Pleasanton.

**Partner,
Supervisory
and Staff
Qualifications
and Experience**

The audit team assigned to the District has the ability to meet all of your expectations. Resumes can be found in Appendix i for the key members of the audit team.

**Affirmative
Action**

Vavrinek, Trine, Day & Co., LLP practices an affirmative action program whereby the Firm does not discriminate in recruiting, hiring, promoting, demoting, or terminating practices on the basis of race, religion, creed, color, national origin, ancestry, sex, age, marital status, medical condition, or physical handicap. The Firm follows the provisions of the State Fair Employment Practice Act, the Federal Civil Rights Act of 1964, and the Executive Order 11246.

**Professional
Organizations**

California Society of Municipal Finance Officers (CSMFO)

American Institute of Certified Public Accountants (AICPA)

California Society of CPA's (CSCPA)

- Member School Audit Task Force
- Governmental Accounting and Auditing Committee

AICPA Practice Sections:

- Center for Public Company Audit Firms
- Governmental Audit Quality Center

Public Company Accounting Oversight Board (PCAOB)

Government Finance Officers Association (GFOA)

Specific Audit Approach

Specific Audit Approach

Audit Policy and Procedures

Our audits will be conducted in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts, and will include tests of the accounting records of the District and other procedures we consider necessary to enable us to express unqualified opinions that the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. If our opinion is other than unqualified, we will fully discuss the reasons with you in advance.

Our staff will be fully briefed on the specific audit objectives before they commence the audit. Initially, we will hold an internal planning meeting with the audit team members. In this meeting we will assign tasks, go over the audit approach for all significant areas, plan the timing of the tasks and develop a schedule of items we will need from you, the client, in advance of performing both interim and year end audit procedures. Because we have not yet been awarded the 2004-05 audit contract all of our work will be done after the closing of the Districts books. We then would plan to meet with District personnel to review the listing of deliverables, the expected timing of the engagement and to solicit any issues from District personnel that may have an impact on our proposed audit procedures. We will then prepare a schedule which will lay out the agreed upon timing of the engagement as well as the agreed upon dates for completion of field work, delivery of draft financials and delivery of the final reports.

The audit partner will be present at all meetings to discuss the approach to the audit with District management and the results of our audit and findings and recommendations, if any, and to present the audit report to the District Board. We consider this level of communication to be a critical part of the audit process.

**Partner
Involvement**

We believe that partner involvement is an extremely important aspect of the audit process. To provide the client with the assurance that we will provide an outstanding product, the partner in charge of the engagement will be on-site for both interim and year-end workpaper review as well as being in attendance at the previously mentioned meetings. Thus, he will be available to answer client and staff questions in a timely manner. In addition the partner in charge will personally supervise the report production process.

**District
Assistance**

It is our intention to utilize the District's staff as little as possible so as to minimize the disruption of the office routine. Although, as part of the audit process, we would request that assistance be provided by the District in certain areas include the following:

- Upon selection of our internal control samples, we would ask that the District staff pull the appropriate supporting documentation.
- Provide assistance for the typing of confirmation letters.
- Be available for consultations and/or interviews with the auditors for the purpose of assisting us in 1) documenting the system of internal accounting control over critical transaction cycles and 2) performing our procedures with respect to assessing the likelihood of fraud that is material to the financial statements.
- Making available or providing copies of accounts receivable, payable detail, journal entries, and other appropriate accounting records.
- We will also need the trial balance and supporting documentation for balance sheet and revenue accounts. The level of effort required would be no different than that provided in previous years.

Sampling Methodology

Vavrinek, Trine, Day & Co., LLP has the ability to use both statistical and judgmental audit-sampling methods. We believe in using the best sampling methodology for the area being audited. Sampling of transactions will normally be judgmental in support of our substantive procedures to achieve the desired percentage of coverage of accounts in connection with other procedures such as confirmation of cash balances and tax revenues.

EDP Software Use

We utilize a proprietary audit software package known as E-Pace in the performance of the audits. E-Pace allows us to automate a number of audit tasks by virtue of creating Excel or Word templates that do not have to be recreated each year. This feature automates the financial statement preparation process saving a significant amount of preparation time. We can download the year-end trial balance detail from your general ledger using a variety of formats and we can then link the various trial balance amounts to the financial statement template.

Audit or post-closing client adjustments are entered into E-Pace and the trial balance and financial statements and related notes are automatically updated. All of our audit programs are resident in E-Pace. In addition, we have hot links in our master file that allow our auditors to access such items as GASB Statements and Professional Standards which contribute to a more efficient and thorough audit. Each staff person has a state of the art laptop computer with all of the same functionality. Our computers allow for wireless communication between the audit team. The system is such that audit team members can work on different sections of the audit simultaneously. At the end of the day, the team updates and downloads their completed sections and automatically saves the work to central file.

Analytical Review

Analytical review is also an important part of all of our audits. The appropriate analytical review procedures will be applied as is considered necessary to achieve the quality audit the District deserves. We will apply analytical review procedures to all income and expense accounts and will request a detailed client analysis for variances exceeding our materiality thresholds. The analytical review will include a comparison of current year to prior year and a budget to actual comparison. We will also use analytical review to audit various balance sheet accounts where substantive testing would be cumbersome and required excess District staff time to pull applicable documents. We believe analytical review is an important part of the audit for both the balance sheet and income statements. We also believe that performed correctly, reliable substantive audit evidence can be obtained in an effective and efficient manner.

***Audit Approach
Used to Gain
Understanding
of The Internal
Control
Structure***

Our primary audit approach to obtain an understanding of the District's internal control structure will consist of reviewing the District's documented policies and procedures and documenting the existing control structure based upon interviews with appropriate District personnel. We will then conduct "walk through" testing of various transactions to determine if the District is in compliance with the adopted policies and procedures.

The District's RFP specifically requested under Scope of the Audit that our approach shall include a review of accounting procedures and internal accounting control to ensure that there is effective control over revenues, expenditures, assets and liabilities and that there is a proper accounting of resources, liabilities, and accounting operations.

Our substantive approach to the audit does not rely on the District's system of internal controls to reduce our audit procedures. The purpose of the audit is not to give an opinion on the District's internal controls although we will provide recommendations for improvements based on our understanding gained through our walk-throughs. An engagement designed to give an opinion on the District's internal controls as contemplated by the RFP can be performed as a separate engagement.

***Potential Audit
Problems***

At this point in time, we do not see any potential problems significant enough to preclude us from issuing the necessary audit report on the financial statements. Should we become aware of any potential audit issues or potential audit findings, we will immediately bring them to your attention at one of the planned audit update meetings. We will not issue any findings without having first thoroughly discussed the matter with you, including any possible mitigating factors.

Report Format

It is our intent to follow the report formats previously used in the preparation of prior years' financial statements which comply with the Governmental Accounting Standards Board (GASB).

Audit Work Plan

Audit Work Plan

Audit Timing

We would plan on meeting with District management to review our work plan within a week of the award of the contract. We will to commence our audit procedures as soon as possible after the District has closed its books and is satisfied that the accounts are properly reconciled and supported. We do have other audit scheduled but will make every effort to begin the audit within three weeks of notification that the District is ready. We would hope that the audit can be completed well before the December 31 requested deadline to preserve the usefulness of the audit report to the Board.

Year-End Work

It is our expectation that this process will be complete sometime in late September or early October. It is critical that this timetable be maintained if the other timelines for completion of field work, such as delivery of draft financials, and final delivery of all required reports, are to be met. During this phase, we will accomplish the walk through testing of the major internal controls and we will perform substantive audit procedures on the significant year end account balances. We will use a variety of audit procedures, including outside confirmation of balances, testing of client-prepared schedules, physical observations, analytical review, and reasonableness testing procedures.

We anticipate spending approximately three days on site. We will have final closing audit work performed in our office. This will include workpaper review, preparation of draft financials and management letter. Upon completion of the drafts of statements, we will submit copies to you for your review. We would then meet to finalize changes, review audit findings, if any, and finalize all reports for publication. Finally, we would plan to make a presentation of the audit report to the District Board at a regularly scheduled Board Meeting.

The fees and anticipated staffing are included in the appendix. The fees are based on the assumption that the financial records will be properly closed and that significant accounts will be properly supported. Should circumstances occur that cause us to believe that our fees will be exceeded we will notify you immediately and will not proceed unless authorized.

The engagement can be terminated by either party without cause.

Resumes of Key Personnel



Vavrinek, Trine, Day & Co., LLP ★★ ★ Audit Team

THOMAS A. BREWER, CFE
Partner

Firm Position

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

Length of Service

1977 to Present

Experience

Certified Public Accountant and Certified Fraud Examiner with twenty-five years experience in auditing, tax, management consulting, and litigation support. Seven years direct management experience with governmental and commercial enterprises, including two years as chief financial officer for a start-up test equipment manufacturer. Industries served include manufacturing, construction, environmental, retail, attorneys, broker dealers, wholesale distribution, health-care, nonprofits, and governmental institutions. Has performed peer reviews of California CPA firms and served as a member of the California Society of Certified Public Accountants Peer Review Committee.

Currently specializing in consulting and management advisory services. Services provided include internal and operational audits, procedure compliance reviews, organizational studies, reclassification studies, accounting system design, internal control system evaluations, policy and procedure development, negotiations support, strategic planning, fraud investigations and litigation support, special studies, and accounting projects.

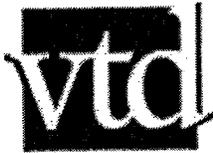
Professional Affiliations

Member of American Institute of Certified Public Accountants
Member of California Society of Certified Public Accountants
Member of Association of Certified Fraud Examiners
Past Member of CSCPA Peer Review Committee

Education

MBA, Taxation – Golden Gate University
Postgraduate studies in organization theory and management – California State University Los Angeles
BA, Accounting – California State University Los Angeles

"The CPA Firm you can trust for Personalized Service"



Vavrinek, Trine, Day & Co., LLP ★★ ★ Audit Team

LEONARD DANNA, CPA ***Audit Partner***

Firm Position

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

Length of Service

Mr. Danna spent 25 years with Grant Thornton, LLP, prior to joining our firm, and headed up that firm's Bay Area Government Service Practice. Mr. Danna joined Vavrinek, Trine, Day & Co., LLP in May 1999 and serves as Audit Partner in charge of the Firm's South Bay and Peninsula school district audit practice.

Experience

Twenty-eight years of auditing, consulting, and litigation support services. Areas of concentration include local educational agencies, special districts, manufacturing, distribution, and high tech.

Experience with local educational agencies includes serving as partner in charge of over 20 local school districts, one community college district, and several other governmental special district agencies.

Extensive experience with Public Companies, IPO's, mergers, and acquisitions.

Professional Affiliations

Member of American Institute of Certified Public Accountants
Member of California State Society of Certified Public Accountants

Education

Bachelor of Science, Commerce
Santa Clara University, 1974
CPA status earned in September 1976

"The CPA Firm you can trust for Personalized Service"

References

References for Partners assigned to Sequoia Healthcare District

Monterey Regional Water Pollution Control Agency
Audit of General Purpose Financial Statements and
State Controller's Report

Leonard Danna, Partner

Contact Person:
Tom Buell, Manager of Finance
5 Harris Court, Building D
Monterey, CA 93940
(831) 645-4618

Monterey-Salinas Transit District
Audit of General Purpose Financial Statements and
State Controller's Report

Leonard Danna, Partner

Contact Person:
David Sobotka, Controller
One Ryan Ranch Road
Monterey, CA 93940
(831) 393-8125

Peninsula Healthcare District
Audit of General Purpose Financial Statements

Thomas Brewer, Partner

Contact Person:
Sue Smith, Treasurer
1783 El Camino Real,
Burlingame, Ca 94010
(650) 696-5450

Peer Review

Peer Review

Peer Review

For several years, Vavrinek, Trine, Day & Co., LLP has met the SEC Private Companies Practice Section requirements by having its accounting and auditing practice be subject to the scrutiny of a peer review program. The peer review program is very important to us because we feel that our aim is to provide our partners and professional staff with the knowledge and talent which is necessary to provide exceptional services to our clients. We also require that the peer review performed be in accordance with applicable Public Company Oversight Board (PCAOB) standards to allow us to be a member of the Private Companies Practice Section of the AICPA.

To meet this requirement, Vavrinek, Trine, Day & Co., LLP belongs to the Western Association of Accounting Firms (WAAF) for our peer review program. As a member of this association, our audit procedures, working papers, and overall firm quality is examined on a regular basis by another CPA firm. As part of the quality control review, all aspects of the Firm are examined, including our commitment to extensive governmental training for all professional staff. All professional staff receive at least 24 hours per year of continuing professional education (CPE) relating to governmental auditing and accounting.

Peer reviews are performed on a three-year cycle. Our last peer review covered the December 31, 2002 year. A copy of our peer review opinion is included in Appendix IV. Our next peer review will be performed this year.

***Schedule of Professional
Fees and Expenses
(Appendix C)***

Schedule of Professional Fees and Expenses

Anticipated Staffing and Fees

Professional Staff	Number of Hours	Rate per Hour	Total
Partners	16	\$ 300	\$ 4,800
Managers	16	180	2,880
Supervisors	50	150	7,500
Seniors	89	125	-
Staff	43	95	-
Other (Specify): Clerical	8	60	480
			<hr/> 15,660
		2004-05	15,500
		2005-06	16,000
		2005-07	16,500

July 5, 2005

ACCOUNTANCY CORPORATION
1931 San Miguel Drive - Suite 100
Walnut Creek, California 94596
(925) 930-0902 • FAX (925) 930-0135
E-Mail: maze@mazeassociates.com
Website: www.mazeassociates.com

Ms. Stephani F. Scott, CEO
Sequoia Healthcare District
170 Alameda de las Pulgas
Redwood City, CA 94062-2799

Dear Ms. Scott:

We understand you require an audit of the District's Basic Financial Statements. We perform our work timely and **we will meet or beat all the deadlines in your request for proposal.** We are quite certain we are the best qualified firm to be your independent accountants and we have outlined the reasons below:

- **We are the best-known regional municipal audit firm in Northern California.** We are also known nationally because of our involvement with the formulation of GASB Statement 34, our position regarding auditors' responses to Y2K, and our leadership in addressing such issues as municipal investment losses. We are also recognized by bond rating agencies for the quality of our audits.
- Municipal auditing is our main business, accounting for over eighty percent of our revenues. We presently have **thirty-five city audit clients, fifty-two special district/authority clients, thirty-six of which are CAFR award winners-more than any other Northern California accounting firm or national firm branch office.**
- **We have implemented GASB 34 for over one hundred municipalities since 2000.** We were involved in the debate surrounding the formulation of GASB 34, and several of our suggestions were included in the final Statement. One of our Partners served as a member of the GASB advisory group which drafted the first GASB 34 Implementation Guide.
- We have performed a variety of additional services for our clients, many of which have focused on **cash collection sites, and cash handling procedures.**
- We are familiar with SEC Rule 15c2-12 which requires issuers of new municipal debt to provide certain annual financial information to designated information repositories. **We have assisted many clients in integrating these required disclosures in their annual financial statements and in simplifying reporting requirements.**
- All our people have high levels of training and experience. In the past four years, everyone on our staff has averaged approximately **100 hours of training in municipal auditing and accounting each year.** All our people understand how municipalities work and we bring you the experience we've gained working with other special districts.
- **Our Partners are actively involved in planning, conducting and completing the audit in your offices and our Partners are available when you need them. We resolve issues on the spot while the audit is going on.**

- **We are constantly innovating.** Personal computers and printers have been integral to our audits for years, and we are now expanding our use of remote inquiry (read only of course) into our client general ledgers and direct data dumps to prepare financial statements. These innovations reduce the impact of the audit on your staff while increasing the time we spend on substantive testing procedures.
- **We perform a thorough and complete interim audit,** designed to make the year-end portion of the audit go extremely smoothly, with no surprises. Nearly half our total audit time is spent at interim each year. Our interim includes much of the work other firms postpone to year-end; we even begin the preparation of the financial statements. **This approach dramatically reduces the impact of the audit on your staff at year-end and allows the completion of final draft reports at the conclusion of our audit fieldwork.**
- **We integrate the financial statement preparation with the audit** so that you remain in control of the process. We will work with you to finalize the draft financial statements as the audit progresses, eliminating any revisions after our fieldwork is complete and accelerating the final issue date. We can **finalize all your report drafts in your offices.**
- We can provide you with **color graphs** and color-coordinated statistical data for your financial statements if you wish, at no additional cost. These graphs make this data much more interesting and informative, especially for Council members and others who aren't numbers-oriented.
- We prepare **Checklists** for you in advance of both our interim and year end work so you have ample time to prepare for the audit when we are not around. We have used these Checklists for years--they do away with last-minute requests for schedules and analyses at year-end and help identify potential problems early in the process. We also coordinate information we need for the audit with information you are already preparing for your own internal use, so you don't end up having to prepare work only for the auditors.
- **Our references**—indeed, any of our clients--will confirm we are your best choice.

Most important, **we are in business to help our clients succeed.** We use our professional skills to help you avoid the pitfalls and problems that await the uninformed. As your independent auditors, we are not part of your management team, but we will help you achieve your goal of clear, accurate financial reporting and full disclosure of all material facts and transactions.

We have no doubt that we are the firm best qualified to perform this engagement. After you have analyzed our proposal and - most important - talked with our references, we are quite confident you will agree.

This proposal is our irrevocable offer to provide the services outlined and is valid for 30 days. Tim Krisch, Partner, is authorized to represent, sign for and contractually obligate Maze & Associates. He may be reached at (925) 930-0902 Extension 224.

We look forward to working with you as your auditors!

Yours very truly,


Timothy J. Krisch

TJK:smg

PROPOSAL

**To Provide
Professional Auditing Services
For The**

SEQUOIA HEALTHCARE DISTRICT

Submitted By

**MAZE & ASSOCIATES
1931 San Miguel Drive, Suite 100
Walnut Creek, CA 94596-5358
(925) 930-0902**

July 5, 2005

Contact Person

Timothy J. Krisch – timk@mazeassociates.com

**SEQUOIA HEALTHCARE DISTRICT
AUDIT PROPOSAL**

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INDEPENDENCE AND LICENSE TO PRACTICE IN CALIFORNIA

As auditors, our most valuable asset is our independence. Unlike many firms, we have never allowed our independent audit function to be used to promote consulting or other work. In fact, consulting and related work have never amounted to more than a few percent of our total revenues, while our independent audit work has amounted to over eighty percent of our revenues. We have never allowed anything to cloud our independence because that would jeopardize our major revenue source.

Our firm and all our partners and employees are independent of the Sequoia Healthcare District and all its component units (if any) as that term is defined by the General Accounting Office's Standards for Audit of Governmental Organizations, Programs, Activities and Functions, the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants and the California State Board of Accountancy. We have no present or past professional relationships with the District or any of its Board members or employees.

Our firm is a professional services corporation organized under the laws of the State of California and all our certified staff are licensed California certified public accountants. Neither the firm nor any of our staff have been subject to any disciplinary action by the State of California or any other governmental or professional body.

We are properly licensed for public practice as certified public accountants. In the event that Maze & Associates should not retain our licenses for any reason during the period of the contract, the District may terminate this contract forthwith and may obtain the services of any licensed certified public accountant to complete the audit. All costs incurred by the District in selecting and employing the successor certified public accountant in completing the auditor shall be borne by Maze & Associates.

FIRM QUALIFICATIONS AND EXPERIENCE

Overview

We are a professional services corporation located in Walnut Creek, California. We presently have a total of thirty-eight people, including six Principals, four Directors, two Managers, eight Supervisors, two Senior Associates, twelve Associates and four Office staff. Thirteen of our professional staff are California Certified Public Accountants. Consistent with past practice, we will hire several additional professional staff by mid 2005. All of our professional staff comprise our governmental audit staff, as our firm's emphasis is on governmental auditing and accounting. Several of our professional staff have national accounting firm experience, which we have blended with the more personal approach of a smaller firm.

Most of our clients are municipal entities and we do this work twelve months of the year. We limit our practice in other areas and focus on being the best municipal audit firm in Northern California. Our audit approach is tailored to municipalities and is quite different from the traditional approach adapted from commercial clients by general practice accounting firms.

We are continually **reinventing the municipal audit process**. While other firms have treated municipal auditing as a necessary evil, we are investing our resources in finding better ways to audit, more efficient ways to produce municipal financial statements and lower cost ways to increase audit assurance and reliability. And we are accomplishing these goals without shifting workload to our clients.

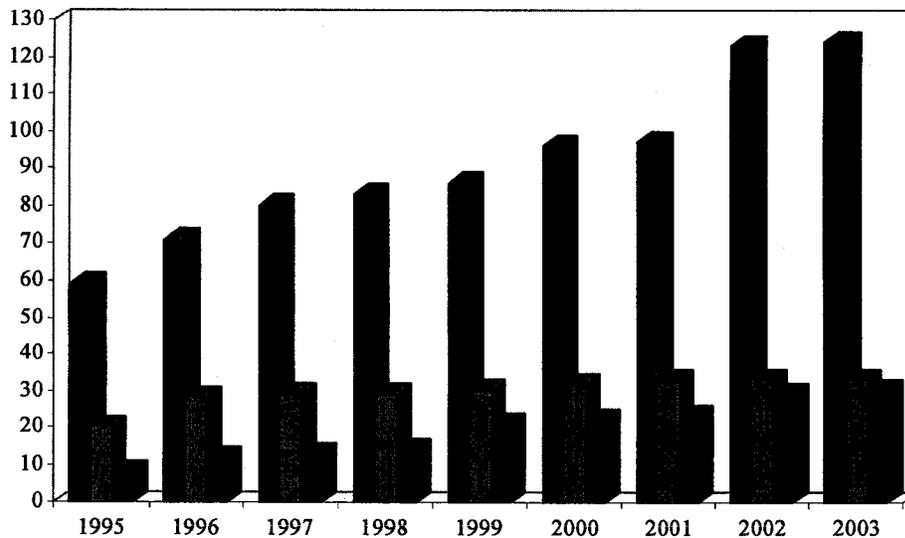
FIRM QUALIFICATIONS AND EXPERIENCE (Continued)

We have evolved a highly advanced audit approach which **significantly reduces our impact on your staff** while giving you greater control over your books and closing process. We have used and improved this approach over the past, and it works extremely well. To complement our audit approach, we have completely computerized the preparation of financial statements, using Excel based programs we developed in-house. This approach has significantly increased financial statement accuracy while reducing costs and turn-around time.

Our financial statements are known for their clarity and readability. We understand that financial statements are intended for non-accountants and we focus on making the statements readable and understandable while fully disclosing all the pertinent facts and circumstances.

Our Municipal Focus

Our practice has now grown to thirty-five city clients and fifty-two special districts and authority clients, thirty-six of which are CAFR award winners—more city clients and more award winners than any other Northern California accounting firm or international firm branch office. Plus we also prepare five award winning Special District CAFRs. Our growth can be seen in the graph below, which shows the growth in the number of our municipal entity clients in blue, City audit clients in green and CAFR award winners in red.



Every one of the above CAFRs, including several initial submissions, won awards from GFOA and CSMFO.

We offer municipal audit services to cities, redevelopment agencies, special districts, joint powers authorities, water districts and sanitation districts as well as federal and State grantees. We are familiar with the financial and reporting requirements you must meet and we have dealt extensively with the requirements of the Single Audit Act.

A chart of our Special District and Authority clients follows:

FIRM QUALIFICATIONS AND EXPERIENCE (Continued)

<u>Special Districts and Authority Clients</u>	<u>Client Since</u>	<u>Compliance Requirements</u>	<u>Single Audit/ Special Report</u>
Alameda Power and Telecom	1992	X	X
Belmont Fire Protection District	1998	X	X
Calaveras County Water District	2004	X	
California Joint Powers Risk Management Authority	1993	X	X
Coastside County Water District	1993	X	X
Concord Joint Powers Financing Authority	1992	X	
Concord Sanitary Sewer Services, Inc.	1993	X	
Contra Costa Mosquito Abatement District	2005	X	
Contra Costa Solid Waste Authority	1993	X	X
Contra Costa Water District	2000	X	X
Contra Costa Water District Retirement Plan	2000	X	
Contra Costa Water Financing Authority	2000	X	
Delta Diablo Sanitation District	2003	X	
East Bay Municipal Utility District	2005	X	X
Fairfield-Suisun Sewer District	2005	X	
Governments of Livermore Financing Authority	1991	X	
Hayward Public Financing Authority	1996	X	
Livermore/Amador Valley Transportation Authority	1994	X	X
Livermore Recreation and Park District	1989	X	X
Manteca Recreational Facilities Authority	1986	X	
Martinez Joint Powers Authority Parking Lot	2001	X	X
Milpitas Public Financing Authority	1995	X	
Monterey Presidio Joint Powers Authority	2000	X	
Napa Valley Housing Authority	2000	X	X
Net Six Joint Powers Authority (Dispatch services)	1998	X	
North Coast County Water District	1995	X	X
Peninsula Traffic Congestion Relief Alliance	2001	X	X
Palo Alto Regional Water Quality Control Plant	1998	X	X
Palo Alto Golf Course Financing Corporation	1998	X	X
Palo Alto Public Financing Corporation	1998	X	X
Port of Redwood City	1998	X	
Ralston/Holly /Harbor Grade Separation Projects	1998	X	X
Ross Valley Paramedic Authority	1991	X	
San Mateo Pre-Hospital Emergency Svcs. Providers Group	2000	X	X
Santa Clara Valley Water District	2004	X	X
Silicon Valley Animal Control Authority	2001	X	X
Skyline County Water District	1995	X	X
South Bay System Authority	1998	X	
South Bay Transfer Station Authority	1997	X	
South County Fire Authority	1998	X	X
South Placer Wastewater Authority	2001	X	
South San Joaquin Irrigation District	2004	X	
South San Mateo Police Joint Powers Authority	2000	X	
Sports and Open Space Authority	2001	X	
Twin Cities Police Authority	1991	X	
Union Sanitary District	2000	X	
Union Sanitary District Financing Authority	2000	X	
Visalia Public Building Authority	1998	X	
Visalia Public Business Improvement District	1998	X	
West Bay Sanitation District	2005	X	
West Contra Costa Integrated Waste Management Auth.	1995	X	
West Contra Costa Transportation Authority Commission	1995	X	
West Valley Sanitation District	2004	X	

FIRM QUALIFICATIONS AND EXPERIENCE (Continued)

References

We have selected the client below as references because they are at least as large and complex as the Sequoia Healthcare District or the people assigned to your audit have played important parts in these engagements. However, we encourage you to call any of our clients for a reference.

Delta Diablo Sanitation District

Principal contract - Paul Rankin, Administrative Services Manager, 925-756-1935

Union Sanitary District

Principal contact - Maria Scott, Accounting Manager (510) 477-7500

West Valley Sanitation District

Principal Contact - Mr. Robert R. Reid, District Manager (408) 378-2407

PARTNER, SUPERVISORY AND STAFF QUALIFICATIONS AND EXPERIENCE

Our people accumulate an average of over 1500 hours of purely municipal audit and accounting experience annually, far more than in any general service accounting firm. And we keep the same people on the job, normally for at least three years.

We pay particular attention to selecting people who have the specific experience and skills needed for your work. Over the years, we will give you the continuity you need, while introducing enough new people to keep our perspective fresh and provide you with the benefits of rotation. Our staff assigned to your work will continue to return each year, barring unexpected resignations by the people on your engagement. We are interested in your reactions to our people and their approach to your work. Any changes in personnel will be reviewed with you in advance.

We do everything we can to ensure continuity because it helps you, it helps our staff and it helps us. We schedule the entire year in advance to avoid conflicts, and we give priority to clients who are able to accurately predict the date their books will be closed, so that the staff on their audit will not be affected if another client's closing or audit is delayed. We attempt to match personalities as well as skills and abilities so that our staff and yours will get along well.

Our people assigned to your work will include Tim Krisch as Engagement Partner, Elena Kazantseva as Supervisor, and Dustin Clausen as Senior Associate.

Our Partners lead by example. We are heavily involved in planning the audit, drafting the financial statements and recommendations, and performing the work in our client's office. Tim Krisch will be responsible for your audit. His experience includes auditing Contra Costa Water District, Delta Diablo Sanitation District and Union Sanitary District.

SPECIFIC AUDIT APPROACH

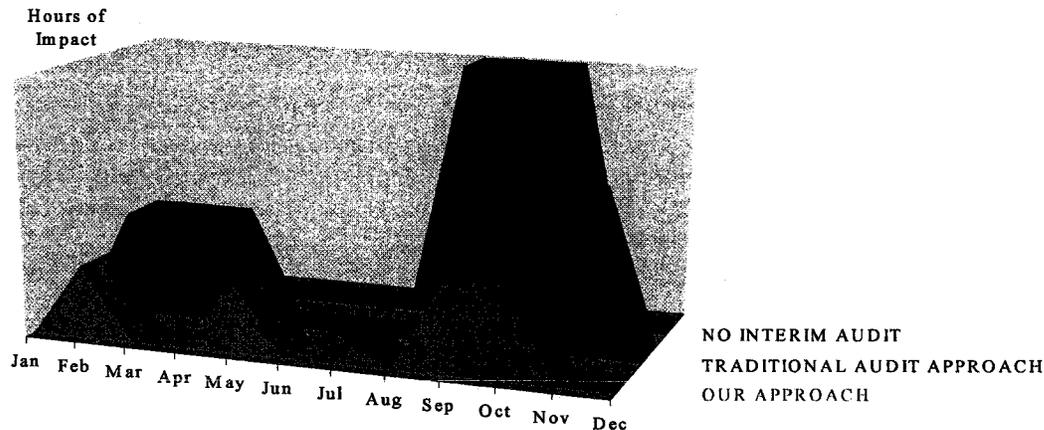
Overview

We have designed an entirely new audit approach specifically for municipalities. We use highly trained people, our own computers and software and we minimize the impact on your staff. Our audit programs are designed specifically for municipalities and we normally perform half our audit well before year-end. Our computerized approach maximizes our efficiency and lessens the load on our clients. Typically, we prepare drafts of the financial statements and notes for your review well before year-end and we give you detail checklists of all the items we will need from you months in advance. As you can see from the illustration below, our approach reduces the time you spend with auditors and significantly reduces our impact during the crucial year-end crunch.

We have detailed our audit approach below, so that you can see how well it will work for you. **Our proposed segmentation of the audit, including staff level and the number of hours to be assigned to each segment of the audit, is included in the Fees Section of the proposal.**

Audit Approach—Interim

Unlike older-style firms, we perform most of our important work at interim, well before the end of the fiscal year. We use our interim work to identify and solve problems and plan the year-end closing and audit in detail. We will begin our interim work by sending you a list of the items we will need at least two weeks before we are scheduled to visit your offices, so you will have time to prepare.



We will start our work in your offices by evaluating your internal control structure. We also vary our approach and we change areas of emphasis each year based on our planning meetings with you. We test our evaluations each year through our sampling and tests of transactions.

We forecast many year-end amounts at interim, so that we can limit the amount of work required at year-end and concentrate instead on areas of concern. We normally perform all our cash and investment testing at interim, including sending confirmation letters to depositories and determining financial statement categorizations. As another example, we test long-term debt at interim and forecast year-end balances for each debt issue.

SPECIFIC AUDIT APPROACH (Continued)

All our transaction samples will be drawn and tested during the interim portion of our work. Each sample will run from thirty to fifty transactions in size and we will draw them from all months of the year except for payroll, which is usually selected from a single month. We generally sample payroll, disbursements, receipts, investments and budget transactions.

We do not normally use statistical sampling; all samples are selected on a judgment basis, based on our experience and knowledge of municipal transaction patterns. We have experience with statistical sampling techniques and we have concluded that they are not generally cost effective audit tools when applied to our municipal clients' transaction populations, because of the relatively small size and the highly skewed nature of these populations from a statistical sampling point of view.

Most of our sampling will be done at interim. We will give you a list of the documents we wish to test well in advance of the time we will need them, so you have time to pull them.

At interim, we will tailor a set of our Excel financial statement programs to fit your needs for all reports. We will redraft and revise last year's financial statements where necessary for new transactions, disclosures and accounting pronouncements.

We ask you to help us put together our Annual Closing Checklist so that everyone knows months in advance what has been promised and when. We tailor the Checklist to fit your existing reporting capabilities. The Checklist includes everything we will need from you at year-end, so you and your staff can plan and schedule your work accordingly.

We will also produce an interim Accounting Issues Memorandum which is intended only for the Finance Department. This is an informal typewritten memo which covers housekeeping matters, minor audit findings, scheduled audit field-work start and finish dates, etc. We'll produce this memo right in your office before the conclusion of our interim work, so you have an idea of what we've found so far and whether there are areas which need work.

Audit Approach—Year End

At year-end we do not repeat any of the work we performed at interim. Instead, we focus on the items on your Checklist and on the Basic Financial Statements. Tim or Elena will visit your offices to review this information with you before bringing it back to our offices. Then you will have a clear week while we begin our audit in our own offices.

Our year-end audit fieldwork actually starts in our office, so that when we do arrive in your offices we are fully prepared and we minimize our impact on your operations. In our offices, we cross-reference or reconcile your Checklist information, reports and schedules. Tim then performs our detailed Analytical Review of your draft financial statements, and emails our questions to you in advance of our arrival in your offices. Our experience is that this Analytical Review identifies any issues remaining after our interim work, as well as most potential audit adjustments. This gives all of us time to address these items in person while the audit fieldwork is proceeding, instead of by telephone, fax and mail afterward.

SPECIFIC AUDIT APPROACH (Continued)

Tim and Elena will meet with you on the first day of the year-end audit to review the draft financial statements with you and to discuss any remaining unanswered Analytical Review questions. This meeting sets the stage for the year-end audit; by this time the format and content of the financial statements is pretty well set and most audit adjustments have been identified. If we find any material adjustments, we will discuss them with you immediately and provide you with the journal entries required; we do not propose adjustments which are not material. If there are financial statement changes or adjustments, we will make them immediately and print out revised pages, so that the draft financial statements remain current as our work progresses.

At the conclusion of our fieldwork, Tim and Elena review the final financial statement drafts with you and your staff as part of our exit conference. Cory Biggs, Technical Review Partner, will also perform a "cold review" of the financial statements, including the completion of a disclosure checklist, so that we will be ready to sign the financial statements as soon as the District approves them.

You will find our approach allows you to control the audit process, enables you to spread the work over the year as you wish and greatly reduces the pressure at year end.

Laws and Regulations

All our people have extensive experience with Redevelopment Agency compliance, County Sales Tax Transportation Measures, the Single Audit Act, Transportation Development Act and similar grant compliance requirements. We determine which laws and regulations are pertinent to our compliance work when we identify the individual grants and programs we are required to test for compliance, principally by referring to the underlying laws, rules and regulations.

On-Site EDP Hardware and Software

We utilize Laptop computers running Windows 2000/XP/2003 operating systems. We use Word 2000 as our word processor and Excel 2000 for preparation of financial statements and schedules. Each of our auditors has a laptop PC along with portable laser printers and will bring an extra laptop running as a server and a wireless access point with USENG encrypted 802.11A. This drastically reduces turn-around time and means we literally print the reports at your offices.

All our professional staff are extremely adept at working with our clients' systems and our personal computers and software. We have considerable experience with a variety of computerized accounting systems, including AccPac, AccPac Plus, Bitech/Sungard (IFAS), BRC, DLH, HTE, InfoComp, MOMs, Geminis, Mentor, Ross, Springbrook, Pentamation, Endensystems, Harris CIS Cayenta, Quickbooks and others. Our approach is to audit through your computer system. As part of the audit we will perform a review and evaluation of your information system controls and procedures. This evaluation should result in additional recommendations concerning computer operations and security.

Prompt Service and Delivery of Reports

Financial information, like fish, must be as fresh as possible and this is an important part of our service. We have always focused on reducing financial statement turn-around time and we have never missed a deadline. We normally complete the final draft of the financial statements on the last day of our fieldwork in our clients' offices (termed the "opinion date" because it is the date of our auditor's opinion on the financial statements) or within two weeks thereafter.

APPENDIX

Resumes of Staff Assigned to Your Audit

We have included complete resumes of all people assigned to your audit below. We think you will agree after reviewing these resumes that our staff have significant amounts of experience and education in municipal auditing and accounting.

TIMOTHY KRISCH, Engagement Partner--Tim received a Bachelor of Arts Degree and a Bachelor of Science Degree from Eastern Illinois University. He is a Certified Public Accountant in the State of California. He is a member of the American Institute of Certified Public Accountants, and the California Society of Certified Public Accountants. He was employed by Peterson & Co., a certified public accounting firm specializing in construction related litigation claims, and Wallace, Mah & Louie, Certified Public Accountants, for a total of nine years prior to joining Maze & Associates in 1990. Tim accumulated three hundred thirty-six hours of continuing education in the past three years as an instructor and participant.

His experience has been in a wide variety of industries including manufacturing, retail, real estate construction and development, service oriented industries as well as municipal entities and not-for-profit organizations. His relevant audit experience includes:

City of Alameda

Alameda Housing Authority

Alameda Power and Telecom

Animal Funds of America

Assistance League of Diablo Valley

Books for the Barrios

California Association of Sanitation Agencies

California Association Social Rehabilitation

California Judges Association/Foundation

Children's Charities of America

Childrens Charitable Alliance

Christian Christies U.S.A.

College Kids, Inc.

Concord Child Care Center, Inc.

Conservation & Preservation Charities of America

Contact Care Center

Contra Costa Water District

City of Daly City

Diablo Regional Arts Association

Delta Diablo Sanitation District

Do Unto Others: America's Emergency Relief

Dublin San Ramon Services District

East Bay Regional Park District

El Dorado Irrigation District

Health & Medical Research Charities of America

Human & Civil Rights Organization of America

Independent Charities of America

J. Stokes & Associates, Inc.

Jamestown Community Center, Inc.

City of Larkspur

Livermore Area Recreation and Park District

Livermore-Amador Valley Water Management Agency

Local Independent Charities of America

Local Independent Charities of Texas

Town of Los Gatos

Match-Two Prisoner Outreach

Military, Veterans & Patriotic Service Orgs.

Motion Systems, Inc.

Mt. Diablo Observatory Association

Partners in School Innovation

San Francisco Urban Service Project

Santa Clara Valley Water District

St. Vincent de Paul Society

Skyline County Water District

Tri-Valley Wastewater Authority

Union Sanitary District

APPENDIX (Continued)

TIMOTHY KRISCH (Continued)

Educate America
Health & Medical Research Alliance
South San Joaquin Irrigation District
East Bay Municipal Utility District
Education Change Management, Inc.
Food Bank of Contra Costa
Friends of the Orinda Library

West Valley Sanitation District
Volunteer Center of Contra Costa
West Bay Sanitation District
Walnut Creek Christian Schools Society
Women, Children & Families Services Charities
City of Woodland

CORY BIGGS, Technical Review and Alternate Partner--Cory is a graduate of CSU Hayward with a B.S. in Business, emphasis in Accounting. He is a California CPA with over nineteen years experience, three with Deloitte, Haskins & Sells, three with Seiler & Company, a large Bay Area local firm, and the rest with us. He is a member of the AICPA and California Society of CPA's. Cory's experience includes cities, school districts, and a variety of high-tech and commercial for-profit organizations. He is a CAFR reviewer for both CSMFO and the GFOA and is a member of the Professional and Technical Standards Committee which summarizes and makes the final determination for CSMFO awards for Cities. Cory is an instructor of our GASB 34 Implementation training courses we hold for municipalities. He is responsible for coordinating and reviewing most Single Audits of our clients' federal awards programs. He oversees the completion of all our client childcare grant audits prepared in accordance with State guidelines. He also ensures all of the Annual Reports of Financial Transactions we prepare on behalf of clients are completed and filed with the state. **Cory has accumulated three hundred twenty hours of continuing education in the past three years as an in-house instructor and participant.** His relevant municipal experience includes:

City of Alameda
City of American Canyon
Town of Atherton
City of Belmont
City of Capitola
Coastside County Water District
Contra Costa County Bond Funds
Contra Costa Transportation Authority
City of Cupertino
City of Daly City
City of Dublin
City of El Cerrito
City of Emeryville
City of Hayward
Town of Hillsborough

City of Livermore
Livermore-Amador Valley Transit Authority
Livermore Area Recreation and Park District
City of Los Altos
Town of Los Altos Hills
Town of Los Gatos
City of Manteca
City of Martinez
City of Millbrae
City of Milpitas
North Coast County Water District
City of Palo Alto
City of Pleasant Hill
City of San Carlos
City of Saratoga
San Ramon Valley Fire Protection District

APPENDIX (Continued)

ELENA KAZANTSEVA, Supervisor--graduated from St. Marys College with a Bachelors of Science Degree in Accounting & Business Administration. Elena has received **two hundred and forty hours of continuing education** since joining Maze & Associates. Elena has participated in the following audits:

City of Alameda	City of Monterey
Association of Bay Area Governments	City of Mountain View
City of Concord	City of Napa
Contra Costa Water District	North Coast County Water District
City of Davis	City of Pittsburg
East Bay Regional Park District	City of Redwood City
East Bay Schools Insurance Group	City of Roseville
City of Millbrae	Skyline Water District
City of Modesto	City of Vallejo
	City of Walnut Creek

DUSTIN CLAUSSEN, Senior Associate--graduated from St. Mary's College of California with a Bachelors of Science Degree in Accounting. Dustin has received **120 hours of continuing education** since joining Maze & Associates. Dustin has participated in the following audits:

California Joint Powers Risk Management Association	Food Bank of Contra Costa at Solano County
City of Belmont	City of Milpitas
City of Campbell	City of Modesto
Charitable Federated Group	City of Santa Clara
City of Daly City	City of Visalia

Continuing Education

Our people receive an average of more than 100 hours of continuing education annually (the State requirement is 40 hours), including an average of over 90 hours of municipal audit and accounting training (the State requirement is 24 hours).

Our program places heavy emphasis on governmental accounting and auditing classes conducted by our own staff, the California Society of Certified Public Accountants, the American Institute of Certified Public Accountants and the Government Finance Officers Association.

Our Principals are specifically responsible for staying abreast of FASB, GASB and tax developments which can affect our clients and for alerting our staff and our clients to these developments. Cory Biggs and Maria Giannell share the responsibility for GASB developments, Cory also tracks FASB developments.

GFOA and CSMFO Activity

We are active members of the Government Finance Officers Association and the California Society of Municipal Finance Officers as well as the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants.

Maria recently served on the GASB 34 Implementation Task Force which issued the 261 page GASB 34 Implementation Guide. She and Scott Maze presented the "Tracy Experiment," at the 2000 CSMFO conference in Pasadena.

APPENDIX (Continued)

We attend CSMFO Northern California chapter meetings on a regular basis, and we have served as speakers on various occasions. We all attend the CSMFO Annual Conference, at which Maria and Scott have both been speakers. We also attend the League of California Cities' annual Financial Management Seminars each year.

ACWA and CASA Activity

We are also active members of the Association of California Water Agencies and California Association of Sanitation Agencies. We recently attended the 2005 ACWA Spring Conference in San Jose.

Personnel Policies

We are an equal opportunity employer. Our staff includes both sexes, which are represented in every staff classification including Principal. Our hiring, management and personnel decisions are based solely on an individual's skills and knowledge. As a result, our staff is very representative of the State's population as a whole.

We are registered with the State as a small or minority owned business enterprise.

Quality Assurance

We are a member of the Quality Review Program of the AICPA, which means we subject ourselves to a peer review of our workpapers and quality control procedures every three years by independent accountants specializing in such work. **Our last peer review was completed in 2002; we again received an unqualified opinion, the highest level of assurance possible.** This peer review included a review of four governmental audit engagements. A copy of our most recent peer review opinion is located at the end of this section.

We meet all the independence standards and requirements of the General Accounting Office's Standards for Audit of Governmental Organizations, Programs, Activities and Functions, the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants and the California State Board of Accountancy. Our performance has always met or exceeded the standards established by these bodies. **We have no record of substandard or unsatisfactory performance, nor have any claims ever been filed with any State Board of Accountancy against our firm or any employees. No federal or State desk review or field reviews have been performed on our work for at least the last twelve years.**

The State Controller's Office performed a review of our Single Audit Act work approximately thirteen years ago and reported that our work is in substantial compliance with generally accepted auditing standards and generally accepted governmental auditing standards, and was on the same level as that of the large accounting firms.

As part of the Quality Review Program, we perform annual in-house peer reviews of all our audit workpapers. These reviews are performed by people who were not associated with that client's work. These reviews result in written reports and recommendations which are submitted directly to our Quality Assurance Principal, Maria Giannell, for follow-up.

APPENDIX (Continued)

Our municipal audit reports are subject to annual reviews by various branches of the Office of the State Controller. City audit reports, Single Audit Act reports and Redevelopment Agency reports receive particular scrutiny. During the past five years every one of these reports has been accepted as submitted. Of course, all of our clients' CAFRs are also reviewed by CSMFO and GFOA for award consideration; every report submitted has won an award from one of these organizations.

GASB 34 and Other Accounting Assistance

The GAO has established new auditing standards that restrict auditors from performing many tasks formerly thought to be permissible. At the same time, California municipalities are asking for assistance as they contemplate the costs, many of them one-time in nature, of implementing GASB 34. In response, we have developed a list of the services we understand we may perform along with a list of those services we are not allowed to perform, many of which we never did offer. We will be pleased to review these lists with you if the District wished any accounting or GASB 34 assistance.

16360 Monterey Rd., Suite 170
Morgan Hill, CA 95037
Tel: (408) 779-3313
Fax: (408) 776-1555

4040 Moorpark Ave., Suite 100
San Jose., Ca 95117
Tel: (408) 557-9890
Fax: (408) 557-9893

July 19, 2002

To the Shareholders
Maze & Associates Accountancy Corporation
Walnut Creek, California

We have reviewed the system of quality control for the accounting and auditing practice of Maze & Associates Accountancy Corporation (the firm) in effect for the year ended May 31, 2002. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (AICPA). The design of the system and compliance with it are the responsibility of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with the system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of Maze & Associates Accountancy Corporation in effect for the year ended May 31, 2002, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of complying with professional standards.

Nichols, Rick & Co.

Nichols, Rick & Company

SEQUOIA HEALTHCARE DISTRICT

ESTIMATED WORK HOURS

PERIOD ENDING: JUNE 30, 2005

Audit Activities	Estimated Hours					Total
	Principal	Director	Supervisor	Associate	Admin.	
Planning, budget & Prep	1.00		4.00			5.00
Admin File			4.00			4.00
Checklists			2.00			2.00
Confirms				4.00	2.00	6.00
Minutes			6.00			6.00
Report-word			2.00			2.00
Report-excel			2.00			2.00
Report-Input			2.00			2.00
Report - Proforma & Production					4.00	4.00
Supervision/review	4.00		12.00			16.00
Conferences & meetings	4.00		2.00			6.00
Management Letter	1.00		3.00			4.00
Information Systems Review		4.00				4.00
Analytical review	1.00		2.00			3.00
Internal Control Evaluation			6.00			6.00
Cash & investments			2.00	8.00		10.00
Receivables/Revenue Testing				8.00		8.00
Capital Assets				8.00		8.00
Accounts payable/Expense Testing				8.00		8.00
Payroll/Testing Accrued liabilities				8.00		8.00
Net assets			1.00			1.00
Commitments & contingency			1.00			1.00
Pension Plan				2.00		2.00
GASB 34 - Compliance			2.00	2.00		4.00
State Controllers Report	1.00		1.00	6.00		8.00
Total Hours	12.00	4.00	54.00	54.00	6.00	130.00

SEQUOIA HEALTHCARE DISTRICT
 SCHEDULE OF PROFESSIONAL FEES AND EXPENSES
 FOR THE AUDIT OF JUNE 30, 2005 FINANCIAL STATEMENTS

	Hours	Hourly Rates	Total 2005	Total 2006	Total 2007
Partners	12.00	\$295.00	\$3,540	\$3,682	\$3,829
IT Manager	4.00	150.00	600	624	649
Supervisor	54.00	90.00	4,860	5,054	5,257
Professional Staff	54.00	75.00	4,050	4,212	4,380
Clerical Support Staff	6.00	60.00	360	374	389
Subtotal	<u>130.00</u>		<u>13,410</u>	<u>13,946</u>	<u>14,504</u>
Meals/Lodging					
Transportation					
Other					
Subtotal					
Grand Total	<u>130.00</u>		<u>\$13,410</u>	<u>\$13,946</u>	<u>\$14,504</u>

Submitted By:

Firm Name:

Maze & Associates

Note: The prices for FY 2006 and FY 2007 are calculated assuming a cost of living adjustment of 4% in each year.