[Date]

Client

Address

Dear Client:

This letter confirms our mutual understanding with respect to the engagement of [CPA] (hereinafter “we”, or “us”), by Client (hereinafter “you” or “the Company”) to provide professional services. The term “the Company” includes the Company and its management, which includes the Company’s officers and managers.

**Audit Scope and Objectives**

We will audit the consolidated and combined financial statements of [Client Company], which comprise the consolidated and combined balance sheet as of [Date], and the related consolidated and combined statements of income, changes in stockholders’, members’ and partners’ equity, and cash flows for the year then ended, and the related consolidated and combined disclosures (collectively, the “consolidated and combined financial statements”).

**[Add if supplementary information is included in the financial statements and is audited]**

The **[*identify accompanying supplementary information*]** will be presented for purposes of additional analysis and is not a required part of the financial statements. Such information will be subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Our auditors’ report will provide an opinion on the supplementary information in relation to the financial statements as a whole.

The objectives of our audit is to obtain reasonable, but not absolute, assurance about whether the consolidated and combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an auditors’ report that includes our opinion about whether your consolidated and combined financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards (“GAAS”) will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment of a reasonable user made based on the consolidated and combined financial statements.

**Auditors’ Responsibilities for the Audit of the Consolidated and Combined Financial Statements**

We will conduct our audit in accordance with GAAS and will include tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion. As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit.

We will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management. We will also evaluate the overall presentation of the consolidated and combined financial statements, including the disclosures, and determine whether the consolidated and combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We will plan and perform the audit to obtain reasonable assurance about whether the consolidated and combined financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Company or to acts by management or employees acting on behalf of the Company.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is an unavoidable risk that some material misstatements may not be detected by us, even though the audit is properly planned and performed in accordance with GAAS. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the consolidated and combined financial statements. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management 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 any later periods for which we are not engaged as auditors.

We will obtain an understanding of the Company and its environment, including internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement of the consolidated and combined financial statements, whether due to error or fraud, and to design and perform audit procedures responsive to those risks and obtain evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. Accordingly, we will express no such opinion. However, during the audit, we will communicate to you and those charged with governance internal control related matters that are required to be communicated under professional standards.

Prior to preparation and execution of this engagement letter, we discussed with you the fact that we provide clients with services specifically focused on identifying and addressing weaknesses in internal controls (internal control review), and on searching for the existence of fraud within your company (fraud audit). We further explained the additional costs associated with such different levels of service. After consideration of such services, you have informed us that you wish to retain us to perform only the audit services described in this letter.

See **Appendix A** for a listing of significant risks of material misstatement we identified as part of our preliminary audit planning and risk assessment. This process is ongoing, and the identified risks are subject to change.

We will also conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a reasonable period of time.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain assets and liabilities by correspondence with selected customers, creditors, and consolidated and combined financial institutions.We will also request written representations from your attorneys as part of the engagement.

We may, from time to time and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

Our audit of the financial statements does not relieve you of your responsibilities.

**Responsibilities of Management for the Consolidated and Combined Financial Statements**

Our audit will be conducted on the basis that management and those charged with governance acknowledge and understand that they have responsibility:

1. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
2. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
3. To provide us with:
   1. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
   2. Additional information that we may request from management for the purpose of the audit;
   3. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
4. For including the auditors’ report in any document containing financial statements that indicates that such financial statements have been audited by the entity’s auditor;
5. For identifying and ensuring that the entity complies with the laws and regulations applicable to its activities;
6. For adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current year period under audit are immaterial, both individually and in the aggregate, to the financial statements as a whole;
7. For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
8. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets;

For informing us of any known or suspected fraud affecting the entity involving management, employees with significant role in internal control and others where fraud could have a material effect on the financials; and

1. For the accuracy and completeness of all information provided.

**[Add if supplementary information is included in the financial statements and is audited]**

With regard to the supplementary information referred to above, you acknowledge and understand your responsibility:

1. For the preparation of the supplementary information in accordance with the applicable criteria;
2. To provide us with the appropriate written representations regarding supplementary information;
3. To include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information; and
4. To present the supplementary information with the audited financial statements, or if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by you of the supplementary information and our report thereon.

As part of our audit process, we will request from management, and when appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit.

You agree to inform us of facts that may affect the financial statements of which you may become aware during the period from the date of the auditor’s report to the date the financial statements are issued.

**Engagement Administration, Fees, and Other**

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing.

If you intend to publish or otherwise reproduce the financial statements and make reference to our firm, you agree to provide us with printers’ proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

It is our understanding that management has designated qualified individuals with the necessary expertise, preferably within senior management, to be responsible and accountable for overseeing all the services performed as part of this engagement. By your signature below, you acknowledge that management agrees to evaluate the adequacy of, and accept responsibility for, the results of all the services performed as part of this agreement.

Attestation services begin only when:

* You have provided us a complete and accurate trial balance that has recorded all the transactions for the years under audit in conformity with United States generally accepted accounting principles (US GAAP).
* You have prepared and provided all of the items requested by us in our “Client Preparation Package” document that was sent prior to the start of fieldwork.

[Name] is the engagement partner responsible for supervising the engagement and signing the report or authorizing another individual to sign it. [Name] will be responsible for managing the execution of the audit and reporting phases of the engagement. We will confirm the start date of our audit with you.

Fees for our audit services will be $235,000. You will also be billed for travel and other out-of-pocket costs such as report production, word processing, postage, etc.; however, report production and word processing expenses are not expected as management will draft, type, and produce the consolidated and combined financial statements. The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit engagement. If significant additional time is necessary, we will keep you informed of any problems we encounter, and our fees will be adjusted accordingly. Additionally, any work associated with consulting services related to potential transactions and acquisitions, will be billed separately at our standard hourly rates which range from $145 to $380 per hour.

We will issue a written report upon completion of our audit of the Company’s consolidated and combined financial statements. Our report will be addressed to the Stockholders and Members of Client. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinion or add an emphasis-of-matter paragraph to our auditor’s report, or if necessary, withdraw from the engagement. If our opinion is other than unmodified, we will discuss the reasons with you 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 withdraw from this engagement.

We may provide consulting services related to the evaluation of the effect of the new GAAP

concerning revenue recognition, ASC 606, if requested by the Company’s management. Consulting is also a nonattest service.

With respect to any nonattest services we perform, the Company’s management is responsible for:

1. Making all management decisions and performing all management functions;
2. Assigning a competent individual to oversee the services;
3. Evaluating the adequacy of the services performed;
4. Evaluating and accepting responsibility for the results of the services performed; and
5. Establishing and maintaining internal controls, including monitoring ongoing activities.

**Hourly Rates, Recording of Time, and Billing Procedures**

Each staff member maintains accurate time records, and clients are billed based on actual time spent on their behalf. A standard hourly rate is set for each staff member based on the criteria of experience and ability. Clients are billed using standard hourly rates multiplied by the actual hours worked. We use the appropriate staff member to perform routine procedures to achieve the lowest possible billing. Basic overhead costs are included in the hourly rates. Any expenses spent specifically on behalf of clients (such as express mail or mileage to meetings) are charged to them. We will provide you with a monthly statement giving you a brief description of each item of work. Our hourly rates range are adjusted periodically in a manner which, over time, approximates inflation. As is usually the case, disbursement charges may not be current at the time of each monthly billing and will be billed later.

Our invoices for these fees will be rendered each month as work progresses and are payable on presentation.  Any comments on the invoices should be provided in writing within 45 days of presentation - your absence of written comment on the bill is deemed agreement to the bill.

In accordance with firm policies, work may be suspended if your account becomes 45 days or more overdue and will not be resumed until your account is paid in full. The firm reserves the right to impose interest on invoice amounts not paid within 60 days from the invoice date at an equal rate to 1% per month (12% per year).

If we elect to terminate our services, or if you elect to terminate our services, our engagement will be deemed to have been completed upon written notification of termination even if we have not completed the work. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination, which will include any time spent with assisting in the transition to a successor firm.

You agree to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures, including but not limited to legal fees, filing fees and other court costs, incurred in the collection of all outstanding fees and service charges.

To keep our costs low and in fairness to us and our clients who remit promptly, we reserve the right to decline to continue to provide services to clients who do not pay within the guideline without making mutually acceptable arrangements for delayed payments, and you agree that we may, at our election, withdraw from any such representation. If you have questions concerning a statement, please call [Name] at [Phone #], ext. [#], or [Name], ext. [#].

**Audit Documentation**

The audit documentation for this engagement is the property of [CPA Firm]. and constitutes confidential information. However, we may be requested to make certain audit documentation available to various regulatory bodies pursuant to authority given to it by law or regulation, or to peer reviewers. If requested, access to such audit documentation will be provided under the supervision of [CPA Firm]’s personnel. Furthermore, upon request, we may provide copies of selected audit documentation to such regulators. The regulator may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies. We agree to retain our audit documentation or work papers for a period of at least five years from the date of our report.

In the interest of facilitating our services to **[Client name],** we may send data over the Internet, store electronic data via computer software applications hosted remotely on the Internet, or allow access to data through third party vendors’ secured portals or clouds. Your confidential electronic data may be transmitted or stored using these methods. In using these data communication and storage methods, our firm employs measures designed to maintain data security. We use reasonable efforts to keep such communications and data access secure in accordance with our obligations under applicable laws and professional standards. We require our third-party vendors to do the same. You recognize and accept that we have no control over the unauthorized interception or breach of any communications or data once it has been sent or has been subject to unauthorized access, notwithstanding all reasonable security measures employed by us or our third-party vendors. You consent to our use of these electronic devices and applications and submission of confidential client information to third party service providers during this engagement.

As required by Rule 301 of the American Institute of Certified Public Accountants’ Code of Professional Conduct and the Gramm-Leach-Bliley Act, we protect the confidentiality of our clients and their customers. We do not disclose any nonpublic information obtained in the course of our practice except as permitted or required by law. In those cases, we stress the confidentiality of such information. In order to guard your nonpublic information, we maintain physical, electronic and procedural safeguards that comply with our professional standards.

In the interest of facilitating our services to you, we may communicate by facsimile transmission or send electronic mail over the Internet. This often involves sending data, documents and other information, including sensitive tax and financial information.

Such communications may include information that is confidential to your company. Our firm employs measures in the use of facsimile machines and computer technology designed to maintain data security.

While we will use reasonable efforts to keep such communications secure in accordance with our obligations under applicable laws and professional standards, you recognize and accept that we have no control over the unauthorized interception of these communications once they have been sent and consent to our use of these electronic devices during this engagement. You should ensure that your e-mail server and the information stored on your system are secure. We are not responsible for any transmission problems or for the failure of your or any authorized recipient of the information to receive files.

You are solely responsible for (i) notifying the firm of the failure to receive files containing your information so that we may provide a copy in an alternate form; (ii) securing your e-mail server and restricting access to your e-mail in order to maintain confidentiality of the information transmitted; (iii) storing the electronic files containing the information; and (iv) acquiring and maintaining the software needed to open and access the files containing the information.

All information you provide to us in connection with this engagement will be maintained by us on a strictly confidential basis. Should we receive any request for the disclosure of privileged information from any third party, including a subpoena or IRS summons, we will notify you. In the event you direct us not to make the disclosure, you agree to hold us harmless from any expenses incurred in defending the privilege, including, by way of illustration only, our attorney's fees, court costs, outside adviser's costs, or penalties or fines imposed as a result of your asserting the privilege or your direction to us to assert the privilege. In the event that we are requested or authorized by you, or are required by government regulation, subpoena, or other legal process to produce documents or personnel as witnesses with respect to this engagement, and provided that we are not a party to the legal proceedings, you shall reimburse us for our professional time and expenses incurred in responding to such requests.

Your confidentiality privilege can be inadvertently waived if you discuss the contents of any privileged communications with a third party, such as a lending institution, a friend, or a business associate. We recommend that you contact us before releasing any privileged information to a third party.

With respect to any services work product or other deliverables hereunder, or this agreement generally, [CPA Firm]’s liability to the Company shall in no event exceed the fees that it receives for the services performed or to be performed under this agreement, nor shall [CPA Firm]’s liability include any special, consequential incidental or exemplary damages or loss, including lost profit, savings or business opportunity. You agree to release, indemnify, defend, and hold us harmless from any liability or costs, including attorney’s fees, resulting from management’s knowing misrepresentations to us.

Dispute Resolution

Parties to this engagement agree that any dispute that may arise regarding the meaning, performance or enforcement of this engagement will, prior to resorting to litigation, be submitted to mediation upon the written request of any party to the engagement subject to the selection of a mutually agreed upon mediator. All mediations initiated as a result of this engagement shall be administered pursuant to the mediation rules of the American Arbitration Association (AAA). The results of this mediation shall be binding only upon agreement of each party to be bound. Costs of any mediation proceeding shall be shared equally by both parties. The mediation shall be confidential in all respects, as allowed or required by law, except our final settlement positions at mediation shall be admissible in litigation solely to determine the prevailing party's identity for purposes of the award of attorney's fees. If any portion of this agreement is deemed invalid or unenforceable, said finding shall not operate to invalidate the remainder of the terms set forth in this engagement letter. This section shall survive completion or termination of this Agreement, but under no circumstances shall either party call for mediation of any claim or dispute arising out of this Agreement after such period of time as would normally bar the initiation of legal proceedings to litigate such claim or dispute under the laws of the Commonwealth of [State].

If mediation fails to resolve the dispute or claim, the parties hereby agree to submit any action, claim or counterclaim whether based in contract, tort, statutory rights or otherwise to the Court of Common Pleas located in [County], [City], [State]. The parties also agree that the laws of the Commonwealth of [State] shall govern all legal proceedings arising from this engagement.

The limitation on liability provisions of this engagement letter will apply to the fullest extent of the law, whether in contract, statute, tort (such as negligence), or otherwise. The parties' agreements and undertakings contained in this engagement letter, such as those pertaining to the limitation on liability, will survive the completion or termination of this engagement. The parties agree that their rights and obligations hereunder will be construed and governed under the law of the Commonwealth of [state].

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

Very truly yours,

[CPA Firm]

RESPONSE:

This letter correctly sets forth the understanding of Client [Name]

Management signature

Title

Date

**Appendix A**

In accordance with Statements on Auditing Standards (SAS) No. 134, we identified the following significant risks of material misstatement during our preliminary audit planning and risk assessment process:

1. Improper revenue recognition due to fraud or error (US GAAP has specific principles to follow surrounding revenue recognition from FASB ASC 606 *Revenues from Contracts with Customers*). This risk is presumptively inherent in all audits.
2. Management override of controls (Management is in a unique position to manipulate accounting records and prepare misstated financial statements by overriding controls that otherwise appear to be operating effectively. Management could be subject to incentives and pressures to materially misstate the financial statements). This risk is presumptively inherent in all audits.

1. Risks related to impairment of long-lived assets specific to FASB ASC 360 *Property, Plant, and Equipment* and accurate calculation of depreciation under units of measurement/production basis.
2. Misstatement of prepaid royalties or need for subsequent re-measurement specific to FASB ASC 340 *Other Assets and Deferred Costs.*
3. Due to complexity of transactions, there is a risk of improper accounting and disclosure surrounding power hedges.
4. Due to the nature and complexity of related party transactions, there is a risk of improperly accounting for and disclosing related party transactions for shared management services, expenses, and revenues or other activities.
5. Inventory valuation issues including slow and/or obsolete inventory valuation allowances, lower of cost or net realizable value issues, volume misstatements, and recognition of margins prior to sale to a third party.
6. Improper recording / reporting of asset retirement obligations (ARO) in accordance with FASB ASC 410: *ARO accounting and environmental obligations*.
7. Risk of misstatement related to the over or under absorption of costs due to standard cost method of inventory accounting.

As of the date of this engagement letter, our planning and risk assessment process is not yet complete, and as a result, modification to the above risks may be made. If material changes to this listing is made during the course of our audit, these will be communicated with those charged with governance in a timely manner.