

AN ORDINANCE **2007-12-06-1260**

APPROVING AND AUTHORIZING EXECUTION OF AN AUDIT SERVICES CONTRACT WITH GRANT THORNTON LLP, TO PROVIDE INDEPENDENT AUDIT SERVICES TO THE CITY FOR FISCAL YEARS ENDING SEPTEMBER 30, 2007 AND 2008, WITH THREE ONE-YEAR RENEWAL TERMS AT THE CITY'S OPTION, FOR A TOTAL FEE NOT TO EXCEED \$4,025,000.00.

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WHEREAS, Section 107 of the City of San Antonio City Charter requires that at the close of each fiscal year, an audit be performed on the City's financial records by an independent certified public accountant; and

WHEREAS, Chapter 103 of the Texas Local Government Code requires the City to have its records and accounts audited annually and have an annual financial statement prepared based on the audit; and

WHEREAS, the Single Audit Act Amendments of 1996 and related OMB Circular A-133 and the State of Texas Single Audit Circular contain certain audit and financial reporting requirements; and

WHEREAS, a Request for Proposal ("RFP"), soliciting proposals for the provision of audit services to the City was released on September 11, 2007; and

WHEREAS, four (4) firms submitted proposals for provision of audit services, which were received by the City and evaluated by an evaluation committee; and

WHEREAS, the evaluation involved, among other inquiries, assessment of the services to be provided, and any related fees for such services; and

WHEREAS, in addition to evaluating the proposals, three (3) firms submitting proposals were interviewed by the evaluation committee, in order to address any outstanding issues and to gain a clear perspective of each firm's ability to service the City's unique and varied requirements; and

WHEREAS, City Staff recommended that the City enter into a contract with Grant Thornton LLP with the term of the contract to be for an initial term of three years, with two one-year renewals at the City's sole option; and

WHEREAS, following discussion and deliberations by the City Council on the matter, the motion and second to adopt this Ordinance and approve the contract with Grant Thornton LLP included an initial term of two years, with three one-year renewals at the City's sole option; and

WHEREAS, authorization of all matters incident and related thereto is needed; **NOW THEREFORE**:

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO:

SECTION 1. The contract between the City and Grant Thornton LLP pursuant to which Grant Thornton LLP shall provide independent audit services to the City for Fiscal Years ending September 30, 2007 and 2008, with three (3) one (1) year renewal terms at the City's option, for a total fee not to exceed \$4,025,000.00, is hereby approved. The fee for the Fiscal Year ending September 30, 2007 shall not exceed \$800,000.00. The fee for the Fiscal Year ending September 30, 2008 shall not exceed \$750,000. If the contract is renewed by the City for Fiscal Year 2009, the fee shall not exceed \$785,000. If the contract is renewed by the City for Fiscal Year 2010, the fee shall not exceed \$825,000. If the contract is renewed by the City for Fiscal Year 2011, the fee shall not exceed \$865,000.


SECTION 2. The City Manager or the Director of Finance is authorized to execute a contract with Grant Thornton, LLP, to provide independent audit services to the City for Fiscal Years ending September 30, 2007 and 2008, with three (3) one (1) year renewal terms at the City's option, for a total fee not to exceed \$4,025,000.00. A copy of said contract, in substantially final form, is attached hereto and incorporated herein by reference, for all purposes as **Attachment I**. The City Manager or the Director of Finance is authorized forty-five (45) business days from the effective date of this Ordinance within which to negotiate and execute a contract, substantially according to the terms and conditions set forth in **Attachment I**. If said contract is not negotiated and executed within said forty-five (45) business days, or if the parties cannot agree to terms of such contract within such time, then there shall be no authority to execute said contract unless there is subsequent City Council approval.

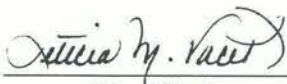
SECTION 3. Funds in the amount of \$800,000.00 are authorized to be encumbered in Fiscal Year 2008 in Fund 11-001000 (General Fund), Department 80, Cost Center 8002060012, Account Number 5201040 (Fees to Professional Contractors), and made payable to Grant Thornton LLP for audit services for fiscal year 2008.

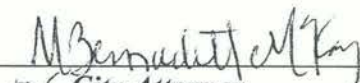
SECTION 4. The financial allocations in this Ordinance are subject to approval by the Director of Finance, City of San Antonio. The Director may, subject to concurrence by the City Manager or the City Manager's designee, correct allocations to specific Index Codes and Fund Numbers as necessary to carry out the purpose of this Ordinance.

SECTION 5. This ordinance is effective immediately upon passage by eight (8) affirmative votes; otherwise, said effective date shall be ten (10) days from the date of passage hereof.

PASSED AND APPROVED this 6th day of December, 2007.


M A Y O R
PHIL HARDBERGER

ATTEST: 
City Clerk

APPROVED AS TO FORM: 
City Attorney

DM



CMS or Ordinance Number: CN4600007126

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Commencement Date:
12/6/2007

Expiration Date:
9/30/2008

AUDIT SERVICES CONTRACT

STATE OF TEXAS

COUNTY OF BEXAR

This Contract is made and entered into by and between the City of San Antonio (hereinafter referred to as "**CITY**"), a Texas Municipal Corporation acting by and through its City Manager or her designee, pursuant to Ordinance No. 2007-12-06-1260 passed and approved on December 6, 2007, and **GRANT THORNTON LLP**, an Illinois limited liability partnership, acting by and through its engagement partner, Angela Dunlap (herein referred to as "**CONTRACTOR**").

WHEREAS, Section 107 of the City of San Antonio City Charter requires that at the close of each fiscal year, an audit be performed on the **CITY'S** financial records by an independent certified public accountant; and

WHEREAS, Chapter 103 of the Texas Local Government Code requires the **CITY** to have its records and accounts audited annually and have an annual financial statement prepared based on the audit; and

WHEREAS, the Single Audit Act Amendments of 1996 and related OMB Circular A-133 and the State of Texas Single Audit Circular contain certain audit and financial reporting requirements; and

WHEREAS, the **CITY** has gone through an extensive selection process and issued a Request For Proposal ("Request For Proposal") and through such process has chosen **CONTRACTOR** to provide the services described herein for a two year period to include the required audits for the fiscal years ending September 30, 2007 and 2008, with three one year options to extend the Contract, with City Council approval, for fiscal years 2009, 2010 and 2011; NOW THEREFORE:

FOR VALUABLE CONSIDERATION, the parties hereto severally and collectively agree, and by the execution hereof are bound, to the mutual obligations herein contained and to the performance and accomplishment of the tasks hereinafter described.

I. DEFINITIONS

- 1.1 For purposes of this Contract, the word "**CONTRACTOR**" as used herein shall refer to **GRANT THORNTON LLP**.

II. PROVISION OF SERVICES

- 2.1 It is acknowledged and understood that before the commencement of the provision of services described in Article III, for each fiscal year of this Contract, **CONTRACTOR** will execute an annual engagement letter with the **CITY** that will establish the obligations, duties and scope of the **CONTRACTOR'S** responsibility for each year's audit, and the total compensation for each year's audit that **CONTRACTOR** will be paid, consistent with the provisions contained in Article VII.

- 2.2 **CITY** and **CONTRACTOR** mutually agree that each annual engagement letter shall become part of this Contract, each time one is executed in accordance with Article VIII and that this Contract and the annual engagement letter for the respective fiscal year shall govern the agreement between the parties for the fiscal year noted in the annual engagement letter.

III. SCOPE OF SERVICES

CONTRACTOR, in accordance with each annual engagement letter, shall provide the following services:

INDEPENDENT AUDIT SERVICES

- 3.1 **CONTRACTOR** is to audit the financial statements of **CITY** during the Contract period and evaluate the fairness of presentation of the statements in conformity with generally accepted accounting principles. **CONTRACTOR** is to also perform auditing procedures in accordance with the Single Audit Act Amendments of 1996 and related OMB Circular A-133, the State of Texas Single Audit Circular and audit of Passenger Facility Charges as required under 14 CFR 158.67 Section (c). It is understood that this audit will be conducted in accordance with Government Auditing Standards and generally accepted auditing standards, which will include a review of the system of internal controls and tests of transactions to the extent necessary, as determined by **CONTRACTOR**. Accordingly, the audit will not include a detailed audit of transactions to the extent which would be required if intended to disclose defalcations or other irregularities, although the possibility exists that such discovery may result. The San Antonio Water System, the City Public Service Board, San Antonio Fire and Police Pension Fund, San Antonio Fire and Police Retiree Health Care Fund, and certain other component units of **CITY** are audited by other auditors. These component units which currently are, or those which may be included in the future, with the application of GASB Statement No. 14 "The Financial Reporting Entity," are included in the scope of work to be performed hereunder but limited only to their respective incorporation into **CITY'S** Comprehensive Annual Financial Report (CAFR).
- 3.2 **CONTRACTOR** agrees to perform in accordance with generally accepted auditing standards adopted by the American Institute of Certified Public Accountants, Government Auditing Standards, issued by the Comptroller General of the United States, Office of Management and Budget (OMB) Circular A-133, the State of Texas Single Audit Circular and any other authoritative pronouncements which may be deemed applicable. Those standards require that **CONTRACTOR** plan and perform the audit to obtain reasonable assurance about whether the basic financial statements as required and in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The wording of the audit opinion will, of course, be dependent on the facts and circumstances at the date of the reports. If the audit opinion will be other than

unqualified, the reasons therefor will be fully disclosed. The audit opinion will be signed by **CONTRACTOR** who will assume responsibility for the audit of the financial statements of **CITY**

- 3.3 **CITY** agrees that it will maintain at least its present degree of conformance to the standards of the Governmental Accounting Standards Board pertaining to internal controls and the recording of financial transactions, and that the Contract price for the audits by **CONTRACTOR** as quoted in Article VII, is predicated upon this conformance. In addition, this Contract is based on the number of major funds to be presented in the fiscal year 2007 CAFR and any substantial increase or decrease in major funds to be presented in future CAFRs may be negotiated as to cost for additional or reduced audit work and is to be mutually agreed to by **CONTRACTOR** and **CITY** in accordance with Article XIX. **CITY** agrees that a complete set of basic financial statements along with required supplementary information (RSI) will be prepared by its Department of Finance as nearly as practical in accordance with the form outlined in "Governmental Accounting, Auditing, and Financial Reporting" published by the Government Finance Officers Association on such financial statements, and any supplemental schedules which it prepares will be submitted and provided to the **CONTRACTOR** in sufficient time (as completed) for full reconciliation with **CONTRACTOR'S** findings, and to facilitate publication of **CITY'S** Comprehensive Annual Financial Report within approximately 120 days after the close of each fiscal year, and for fiscal year 2007, by March 31, 2008. Responsibility for the proper recording of transactions into the books of account, and for the accuracy of the financial statements, which are the representations of management, are with **CITY**.
- 3.4 **CITY** shall have completed and balanced all accounts and have prepared basic financial statements and schedules as required by and in accordance with all applicable GASB Statements to be audited by the **CONTRACTOR** and shall provide **CONTRACTOR** with working space deemed adequate by **CONTRACTOR** for efficient conduct of the audit. **CITY** shall provide **CONTRACTOR** for its use and retention, with copies of these financial statements and schedules and shall provide **CONTRACTOR** with trial balances of the various financial statements as required and in accordance with all applicable GASB Statements in a form reasonably acceptable to **CONTRACTOR**.
- 3.5 The Comprehensive Annual Financial Report will be completed and available for distribution within approximately 120 days of **CITY'S** fiscal year end of September 30, with the exception of the Comprehensive Annual Financial Report for fiscal year 2007, which will be completed and available for distribution by March 31, 2008. The "Management Letter" and "Single Audit Reports" will be completed and available for distribution within a reasonable period of time after completion of the Comprehensive Annual Financial Report.
- 3.6 Upon completion of five (5) consecutive annual audits by an engagement partner, **CONTRACTOR** shall replace its existing engagement partner with a new engagement partner who is reasonably acceptable to **CITY**, in order to maintain objectivity and credibility on future audit engagements. If applicable, this requirement shall carry over from a prior **CITY** Audit Services Contract.

IV. CONTINGENT ADDITIONAL SERVICES

- 4.1 **CONTRACTOR** acknowledges that the services listed below were identified in the Request for Proposal under "Other Services" as those additional services, which the **CITY** may request **CONTRACTOR** to provide. If requested, and **CONTRACTOR** agrees, **CONTRACTOR** shall provide said service(s) under the same terms and conditions of this Contract, save and except those provisions specifically revised by the Director of Finance in the forwarded request (subsection 4.2), revisions to terms and conditions mutually agreed to by the parties, and additional terms and conditions as set forth in the applicable Engagement Letter governing the provision of such service(s).
- 4.2 **CITY** will effect such a request for contingent additional services by forwarding a written request, executed by the Director of Finance or his designee, to **CONTRACTOR** at its respective address provided herein. Within said request, the Director of Finance shall state the scope of services to be provided; the period of time within which said services are to be completed; and the consideration to be paid by **CITY** for the services provided, in accordance with subsection 7.5.
- 4.3 **CONTRACTOR** may agree to provide the following services at the request of the **CITY** in accordance with Section 3.26 of the GAO Amendment No. 3 and any other applicable standards:
- 4.3.1 Providing advisory services on tax, compliance, or other non-audit consultation matters.
 - 4.3.2 Assistance with the preparation of aspects of the annual report or the analysis of new accounting standards or pronouncements.
 - 4.3.3 Advisory services to assist in the resolution of audit findings and questioned costs reported by Federal and State Agencies.
 - 4.3.4 Other services that may be required for a **CITY** bond offering.
- 4.4 In the event the **CITY** requests contingent additional services which, after review by the **CONTRACTOR**, are determined to impair independence or be in conflict with applicable standards, the **CONTRACTOR** is required to notify the Director of Finance or his designee, in writing, as noted in Article XXII, within ten (10) business days of receipt of said request. This written notice is to include a detailed description of the impairment or conflict.

V. QUALITY CONTROL REVIEWS

- 5.1 Pursuant to Government Auditing Standards, **CONTRACTOR** is required to make certain work papers available to federal regulatory agencies upon request, for their reviews of audit quality and use by their auditors. Access to the requested work papers will be provided to the regulators under supervision of **CONTRACTOR'S** personnel. Unless **CONTRACTOR** is prohibited from doing so by law, **CITY** shall be notified within five working days by **CONTRACTOR** in the event of any such request. **CITY**

will not reimburse costs incurred by **CONTRACTOR** related to such review of audit quality. To the extent such work papers are used by the regulators for purposes other than reviews of audit quality and/or to the extent that regulators or grantors request additional procedures beyond the requirements of the Single Audit Act Amendments of 1996, the OMB Circular A-133 and the State of Texas Single Audit Circular, **CONTRACTOR** will notify and discuss such request with **CITY** prior to any costs being incurred by **CONTRACTOR**.

- 5.2 Except with respect to a dispute or litigation between **CONTRACTOR** and the **CITY**, **CONTRACTOR'S** costs and time spent in legal and regulatory matters or proceedings arising from our engagement (except such reviews of audit quality addressed in 5.1 above), such as subpoenas, testimony, or consultation involving private litigation, arbitration, industry or government regulatory inquiries, whether made at the **CITY'S** request or by subpoena, will be billed to the **CITY** separately.
- 5.3 Any such costs agreed to be reimbursed by **CITY** pursuant to 5.1 or 5.2 above will be based on fees negotiated on an individual basis. To the extent funds are appropriated in the then current **CITY** Budget for the payment of such fees, approval and appropriation by **CITY'S** City Council shall not be required.

VI. TERM AND COMMENCEMENT OF WORK

- 6.1 Unless earlier termination shall occur pursuant to any of the provisions of this Contract, the term of this Contract shall be from the commencement of work through completion of the audits of the **CITY'S** records and accounts for the fiscal years ending September 30, 2007 and 2008. In addition, **CITY** shall have the option to renew and extend the Contract for three one year terms, with City Council approval for each renewal and extension, for fiscal year 2009, fiscal year 2010, and fiscal year 2011. Continuation of this Contract beyond the first year, and each and every year thereafter, is subject to and contingent upon an annual appropriation of funds by City Council. The City shall notify **CONTRACTOR** promptly if there has not been made the necessary appropriation of funds.
- 6.2 In the event **CITY** requests **CONTRACTOR** to provide any of the contingent additional services set out in Article IV, the commencement and termination dates shall be established in the written request from the Director of Finance and as agreed to by the **CONTRACTOR**. The terms and conditions of this Contract shall continue to apply to the provision of such contingent additional services as mutually agreed to by both parties until the completion of such contingent additional services to the satisfaction of the Director of Finance.

VII. CONTRACT PRICING AND BILLING

- 7.1 The total of all payments and other obligations made and incurred by **CITY** hereunder, in performance of the audit services provided for in Article III for fiscal year 2007 shall not exceed the amount of \$800,000.00; and for fiscal year 2008 shall not exceed the amount of \$750,000.00. If this Contract is renewed and extended for Fiscal Year 2009, the total of all payments and other obligations made and incurred by **CITY** hereunder, in

performance of the audit services provided for in Article III for that fiscal year shall not exceed the amount of \$785,000.00. If this Contract is renewed and extended for Fiscal Year 2010, the total of all payments and other obligations made and incurred by **CITY** hereunder, in performance of the audit services provided for in Article III for that fiscal year shall not exceed the amount of \$825,000.00. If this Contract is renewed and extended for Fiscal Year 2011, the total of all payments and other obligations made and incurred by **CITY** hereunder, in performance of the audit services provided for in Article III for that fiscal year shall not exceed the amount of \$865,000.00. Such fees are predicated on the expectation that the Finance Department of the **CITY** will provide the preparation of the annual financial reports and statements, and supporting work papers and schedules at a comparable level with prior years.

- 7.2 **CONTRACTOR** agrees that all **CONTRACTOR** labor, supervision of work, report reproduction, typing, travel, insurance, communication, computer access, materials, supplies, subcontractor costs, if any, and all other **CONTRACTOR** expenses necessary to complete the services stated herein shall be borne at **CONTRACTOR'S** sole cost and expense.
- 7.3 Progress billings for the annual fees established herein will be rendered by the **CONTRACTOR** to the **CITY** and detailed as to the amount due. Upon receipt of such billing statements, the amount due will be paid by the **CITY** as specified on such statements. However, **CITY** will retain ten percent (10%) of the total annual fee, until the **CITY'S** Comprehensive Annual Financial Report, Single Audit Reports, Schedule of Expenditures of Passenger Facility Charges and Management Letter have been completed and delivered to **CITY**; provided that the total audit fees for any fiscal year shall be paid in full prior to any services being rendered for the subsequent fiscal year.
- 7.4 In the event that the **CITY** does not provide assistance as provided for in subsection 7.1, or other similar extenuating circumstances are encountered, as to materially alter the performance and scope of work hereunder, it may be necessary for **CONTRACTOR** to consider the issuance of a settlement statement which details and compares the actual work performed against the original audit plan. However, in no instance will the **CITY** make any payment for the services provided for in Article III in excess of the annual amounts as stated for each fiscal year established in subsection 7.1 without formal written revision of this Contract and related City Council approval.
- 7.5 Payments for contingent additional services provided in accordance with Article IV, and payments for any costs to be reimbursed by **CITY** in accordance with Article V, will be based on fees negotiated on an individual engagement basis. **CONTRACTOR** shall prepare and submit a billing statement to **CITY** specifying the scope of work performed and amount due. Upon receipt of the billing statement, **CITY** will review and if in compliance with the negotiated fee, shall pay the amount specified due on such statement to the **CONTRACTOR**.

VIII. INCORPORATION BY REFERENCE

- 8.1 The annual engagement letter for Fiscal Year 2007, executed by **CONTRACTOR**, attached hereto as Exhibit A, is hereby incorporated into this Contract and specifically made a part hereof as though it is fully set out herein.
- 8.2 The parties hereto acknowledge and agree that prior to the commencement of the 2008, (and, if applicable through renewal and extension of this Contract, 2009, 2010 and/or 2011) audits, herein required, **CITY** and **CONTRACTOR** will execute a new annual engagement letter for the upcoming fiscal year. That annual engagement letter, once executed, shall be incorporated herein for that next fiscal year and shall supersede the previously incorporated annual engagement letter for audit services.
- 8.3 In the event of a conflict or inconsistency between the terms of this Contract and the provisions of any of the annual engagement letters ultimately incorporated herein as Exhibit A, the terms of this Contract shall govern and prevail.

IX. RECORDS

- 9.1 **CONTRACTOR** shall properly, accurately and completely maintain all time and billing records necessary to support any invoice rendered to the **CITY**, and shall make such materials available to the **CITY** at least once and thereafter as often as the parties may deem necessary during the Contract period, including any extension or renewal hereof, for purposes of inspection and examination by **CITY** and any of its authorized representatives.
- 9.2 **CONTRACTOR** shall retain any and all documents produced as a result of services provided hereunder, in accord with all applicable laws, rules, regulations and professional standards, including, but not limited to, Title 22 of the Texas Administrative Code § 501.76 and Statement on Auditing Standards No. 103, *Audit Documentation* (codified as AU Section 339), for a period of five (5) years from the date of termination of the Contract. If at the end of five (5) years there is pending litigation or other unresolved questions arising from, involving or concerning this documentation or the services provided hereunder, **CONTRACTOR** shall retain the records until the resolution of such litigation or other such questions.
- 9.3 **CITY** shall be notified by **CONTRACTOR** not more than three business days after receipt in the event of any requests for information by a third party received by **CONTRACTOR** which pertain to the documentation and records related to the Services provided hereunder, unless **CONTRACTOR** is prohibited by law from notifying **CITY**. If required to disclose such documentation and records in response to a court order, subpoena, administrative process or request from an accounting oversight body, or as otherwise required under law or regulation, **CONTRACTOR** shall provide **CITY** with sufficient notice to allow it to seek a protective order or other applicable relief from disclosure, unless **CONTRACTOR** is prohibited by law from notifying **CITY**.

X. SBEDA/GOOD FAITH EFFORT PLAN

- 10.1 **CONTRACTOR** hereby acknowledges that it is the policy of **CITY** to assist in increasing the competitiveness and qualifications of small ("SBE"), women ("WBE"), African American ("AABE"), and minority-owned ("MBE") business enterprises in order to afford greater opportunities for obtaining and participating in contracts, related subcontracts, and leases and concessions awarded by the City. This policy and its implementation are known as the Small, Business Economic Development Advocacy Program (hereinafter referred to as "SBEDA Program").
- 10.2 **CONTRACTOR** shall implement the plan (hereafter "Good Faith Effort Plan") submitted with its proposal under the SBEDA Program for Small, African American, Minority and Women-owned Business Participation, in its performance and delivery of services under this Contract, thereby meeting the percentages for participation of those groups. **CONTRACTOR's** Good Faith Effort Plan is attached hereto and incorporated herein by reference as Exhibit B. **CONTRACTOR** hereby agrees that the % Level of SBEDA Participation for Britts & Associates, LLP (WBE-AABE-SBE) shall remain at **10%**; that the % Level of Participation for Martinez, Rosario & Company (MBE-SBE) shall remain at **20%**; that the % Level of SBEDA Participation for Robert J. Williams, CPA (AABE-SBE) shall remain at **10%**; and that the % Level of SBEDA Participation for Webb Watch Corporation (SBE) shall remain at **10%**. **CONTRACTOR** represents and warrants to **CITY** that the total % Level of SBEDA Participation applicable to this Contract shall be **50%**. **CONTRACTOR** shall be in full compliance with this Article by meeting the percentages set forth immediately above (50%) no later than 60 days from the date of execution of this Contract, and shall remain in compliance throughout the term of this Contract (including all renewals and extensions thereof, if any). **CONTRACTOR** further agrees to continue to make a good faith effort to utilize businesses for subcontracting and supplying during the duration of this Contract, as may be approved pursuant to this Contract, which will **meet or exceed** the percentage set forth above (50%).
- 10.3 Notwithstanding the provisions of Section 10.2 above, and similar provisions in any other Section of this Contract, the total % Level of SBEDA Participation applicable to any of the firms named in Section 10.2 may be revised during the term of the Contract (including all renewals and extensions thereof, if any) upon mutual agreement of **CITY** and **CONTRACTOR**. **CITY's** agreement shall require and be evidenced by the approval of its City Council.
- 10.4 **CONTRACTOR** shall maintain records showing evidence of all contracts, subcontracts, and supplier awards to SBE/MBE/AABE/WBE's. Further, such records shall be open to inspection by **CITY** or its authorized agent at all reasonable times. Should **CITY** find that **CONTRACTOR** is not in compliance with this Article, **CITY** shall give written notice of non-compliance to **CONTRACTOR**. **CONTRACTOR** shall have 15 calendar days after notice of non-compliance to correct any and all deficiencies in compliance with this Article. Failure to comply with this Article and/or to correct any deficiencies within the time allotted shall be considered a material breach of this Contract, for which this Contract may be terminated in accordance with Article XI. Termination.

- 10.5 In all events, **CONTRACTOR** shall comply with **CITY**'s Small Business Economic Development Advocacy Program, contained in San Antonio Ordinance No. 2006-11-30-1335, and the amendments thereto. Said ordinances are incorporated herein for all purposes, as if fully set forth herein.

XI. TERMINATION

- 11.1 For purposes of this Contract, "termination" of this Contract shall mean termination by completion of the provision of services required herein or earlier termination pursuant to any of the provisions hereof.
- 11.2 Other provisions of this Contract notwithstanding, **CITY** may terminate this Contract as to **CONTRACTOR** in accordance with this clause, in whole or in part, for any of the following:
- 11.2.1 Neglect or failure by **CONTRACTOR** to perform or observe any of the terms, conditions, covenants or guarantees of this Contract or of any amendment between **CITY** and **CONTRACTOR**;
- 11.2.2 Failure by **CONTRACTOR** to comply with Article X. above and required throughout the entire term of this Contract, and/or to correct any deficiency therein within the time allotted, as specified in a written notice from **CITY** to **CONTRACTOR** SENT PURSUANT TO Section 10.4 above;
- 11.2.3 The **CITY** shall also have the right to terminate this Contract or any portion thereof for convenience upon thirty (30) days written notice. If **CITY** elects to terminate for convenience as described, the **CITY** shall pay **CONTRACTOR** for services rendered up to and including date of termination.
- 11.2.4 It is possible that because of unexpected circumstances, **CONTRACTOR** may determine that it is unable to form an opinion or complete the engagement. Accordingly, **CONTRACTOR** may decline to express an opinion or issue reports. Further, if in its professional judgment the circumstances necessitate, **CONTRACTOR** may resign from the engagement prior to completion. In the event of such resignation, **CONTRACTOR** shall give **CITY** thirty (30) days prior written notice.
- 11.3 Subsection 11.2.1 notwithstanding, in the event that any such neglect or failure to perform or observe terms, conditions, covenants, or guarantees occurs, **CITY** shall give written notice to **CONTRACTOR** and allow **CONTRACTOR** ten (10) days from the date of such receipt of notice to cure the neglect or failure. If the noted deficiencies are not remedied within the allotted time and to the satisfaction of the **CITY**, the **CITY** may proceed with the termination of this Contract. This Section 11.3 **shall not apply** to termination of this Contract pursuant to Article X. Section 10.4 and Article XI. Section 11.2.2 of this Contract, **or** to termination of this Contract pursuant to Section 11.2.4 above.

- 11.4 Upon a decision to terminate by **CITY** and the expiration of any cure period, written notice of such shall be promptly provided to **CONTRACTOR** specifying the basis for said termination, the effective date of termination, and the extent to which performance of work under this Contract will be terminated.
- 11.4.1 Upon receipt by either party of a notice to terminate, all finished reports for which payment has been received, prepared by **CONTRACTOR** under this Contract, shall be provided to the **CITY**, provided that **CONTRACTOR** determines in its sole discretion it is able to provide such reports under applicable professional standards.
- 11.4.2 Within thirty (30) days of the effective date of termination **CONTRACTOR** shall submit to **CITY** its claim in detail for any monies owed by **CITY** for services performed under this Contract, including all work performed by **CONTRACTOR** required by the provisions of this Contract to the date of notice to terminate and for any necessary and proper work performed in the ensuing thirty-day period, to be determined after discussion with **CITY**, provided however, that such payment shall not exceed the maximum amount set out in subsection 7.1

XII. SUBCONTRACTING

- 12.1 **CONTRACTOR** in its Proposal to **CITY** has identified the following parties as subcontractors it will utilize in its performance and delivery of services under this Contract: 1) **BRITTS & ASSOCIATES, LLP** (WBE-AABE-SBE - 10% Good Faith Effort Level of SBEDA participation); 2) **MARTINEZ, ROSARIO & COMPANY** (MBE-SBE - 20% Good Faith Effort Level of SBEDA Participation); 3) **ROBERT J. WILLIAMS, CPA** (AABE-SBE – 10% Good Faith Effort Level of SBEDA Participation); and 4) **WEBB WATCH CORPORATION** (SBE – 10% Good Faith Effort Level of SBEDA Participation). Each of said parties is hereby approved by **CITY** as a subcontractor under this Contract.
- 12.2 Due to the professional experience required to perform the **CONTRACTOR** services specified in this Contract, **CONTRACTOR** must obtain prior written approval from **CITY's** Director of Finance and **CITY's** Director of Economic Development before engaging and utilizing the services of any subcontractor other than the four subcontractors approved in Section 12.1 above. **CONTRACTOR** acknowledges and agrees that the 50% Level of SBEDA Participation established in Article X. above and required throughout the entire term of this Contract shall apply to **CITY's** approval of the engagement and utilization of any subcontractor other than the four subcontractors approved in Section 12.1 above; i.e., the engagement and utilization of any subcontractor other than (or in addition to) the four subcontractors approved in Section 12.1 above must result in at least a 50% Level of SBEDA Participation for all then current subcontractors under this Contract.
- 12.3 The work and services to be assigned to and performed by each subcontractor under this Contract shall be determined by **CONTRACTOR**, and shall be subject to all provisions

of this Contract, including specifically the % Level of SBEDA Participation provisions set forth above. Compliance by each subcontractor with all of the terms and conditions of this Contract shall be the sole responsibility of **CONTRACTOR**. **CONTRACTOR** shall be solely responsible for payment of fees to each subcontractor for work and services performed by such subcontractor under this Contract.

XIII. ASSIGNABILITY

- 13.1 Neither party shall assign any interest in this Contract to any other party without the prior written consent of the other party.

XIV. CONFLICT OF INTEREST

- 14.1 **CONTRACTOR** certifies and warrants that neither **CONTRACTOR** nor any of its agents, representatives or employees has paid or offered to pay any bribe, kickback or similar payment or other consideration to be selected for the award of this contract or to influence the selection of its proposal.
- 14.2 **CONTRACTOR** certifies and warrants that after reasonable investigation to the best of its knowledge, no person who will in any way either directly participate in or directly supervise any agent, representative or employee who directly participates in the performance of the obligations hereunder has or will have any conflict of interest, direct or indirect, with **CITY**. For purposes of this subsection, "conflict of interest" shall mean that the entity or person has an interest that is materially and directly adverse to the interest of the **CITY** other than the vendor/customer relationship existing pursuant to this Contract.
- 14.3 **CONTRACTOR** acknowledges that it is informed that the City of San Antonio City Charter and its Ethics Code prohibit a City officer or employee, from having a financial interest in any contract with the **CITY** or any **CITY** agency, such as **CITY**-owned utilities. A City "employee" is any employee of the City who is required to file a financial disclosure statement pursuant to Section 1(a) of Part G (Financial Disclosure Report). A City "officer" includes the Mayor or any Council member; a Municipal Court Judge or Magistrate; or a member of any board or commission which is more than advisory in nature. The term does not include members of the board of another governmental entity even if some or all of these members are appointed by the City. An officer or employee has a "prohibited financial interest" in a contract with the **CITY** or in the sale to the **CITY** of land, materials, supplies or service, if any of the following individual(s) or entities is a party to the contract or sale: a **CITY** officer or employee; his parent, child or spouse; a business entity in which the officer or employee, or his parent, child or spouse owns ten (10) percent or more of the voting stock or shares of the business entity, or ten (10) percent or more of the fair market value of the business entity; a business entity in which any individual or entity above listed is a subcontractor on a **CITY** contract, a partner or a parent or subsidiary business entity.

Pursuant to the subsection above, **CONTRACTOR** warrants and certifies, and this Contract is made in reliance thereon, that it, its officers, employees and agents are neither officers nor employees of **CITY**. **CONTRACTOR** further warrants and certifies that it has tendered to the **CITY** a Discretionary Contacts Disclosure Statement in compliance with the **CITY's** Ethics Code.

- 14.4 **CONTRACTOR** acknowledges that from time to time **CITY** releases Request for Proposals or other solicitations. **CONTRACTOR** agrees that to the best of the **CONTRACTOR's** knowledge, including constructive knowledge, in the event it chooses to submit a proposal in response to any of **CITY'S** solicitations, it will notify **CITY** of said submittal, in writing, in accordance with the notice provisions set forth in Article XXIII. Below.
- 14.5 In the event that **CONTRACTOR** is involved in any other project or engagement with the **CITY**, **CONTRACTOR** shall confirm, in writing, that such work does not jeopardize **CONTRACTOR'S** independence in performing the work specified in this Contract.
- 14.6 **CONTRACTOR** warrants and certifies and this contract is made in reliance thereon that it has tendered to **CITY** an accurate Litigation Disclosure Statement.

XV. COMPLIANCE

- 15.1 **CONTRACTOR** shall comply with the applicable independence standards promulgated by the General Accounting Office (GAO), the American Institute of Certified Public Accountants and any other standard related to independence promulgated by any other relevant authoritative body that is applicable to the services provided hereunder.
- 15.2 **CONTRACTOR** shall comply with any and all other applicable standards promulgated by the General Accounting Office and the American Institute of Certified Public Accountants and by any other relevant authoritative body, as applicable to the services provided hereunder, while in the performance of such services.
- 15.3 **CONTRACTOR** shall comply with all federal, state and local laws, rules and regulations applicable to the services provided hereunder, including but not limited to the Single Audit Act Amendments of 1996, OMB Circular A-133, the State of Texas Single Audit Circular, Chapter 103 of the Texas Local Government Code, and Section 107 of the San Antonio City Charter.

XVI. INSURANCE

- 16.1 Prior to the commencement of any work under this Contract, **CONTRACTOR** shall furnish copies of all required endorsements and an original completed Certificate(s) of Insurance to the **CITY's** Finance Department, which shall be clearly labeled "Independent Audit Services" in the Description of Operations block of the Certificate. The original Certificate(s) shall be completed by an agent and signed by a person authorized by that insurer to bind coverage on its behalf. The **CITY** will not accept

Memorandum of Insurance or Binders as proof of insurance. The original certificate(s) or form must have the agent's original signature, including the signer's company affiliation, title and phone number, and be mailed, with copies of all applicable endorsements, directly from the insurer's authorized representative to the **CITY**. The **CITY** shall have no duty to pay or perform under this Contract until such certificate and endorsements have been received and approved by the **CITY**'s Finance Department. No officer or employee, other than the **CITY**'s Risk Manager, shall have authority to waive this requirement.

- 16.2 The **CITY** reserves the right to review the insurance requirements of this Article during the effective period of this Contract and any extension or renewal hereof and to require reasonable modifications of insurance coverages and their limits when deemed necessary and prudent by **CITY**'s Risk Manager based upon changes in statutory law or court decisions. In no instance will **CITY** allow modification whereupon **CITY** may incur increased risk.
- 16.3 **CONTRACTOR**'s financial integrity is of interest to the **CITY**; therefore, **CONTRACTOR** shall obtain and maintain in full force and effect for the duration of this Contract, and any extension hereof, at **CONTRACTOR**'s sole expense, insurance coverage written on an occurrence basis, by companies authorized to provide coverage in the State of Texas and with an A.M Best's rating of no less than A- (VII), in the following types and for an amount not less than the amount listed below:

<u>TYPE</u>	<u>AMOUNTS</u>
1. Workers' Compensation 2. Employers' Liability	Statutory \$1,000,000/\$1,000,000/\$1,000,000
3. Commercial General Liability Insurance to include coverage for the following: a. Premises operations *b. Independent Contractors c. Products/completed operations d. Personal Injury e. Contractual Liability f. Broad form property damage, to include fire legal liability	For <u>Bodily Injury</u> and <u>Property Damage</u> of \$1,000,000 per occurrence; \$2,000,000 General Aggregate, or its equivalent in Umbrella or Excess Liability Coverage
4. Business Automobile Liability a. Owned/leased vehicles b. Non-owned vehicles c. Hired Vehicles	<u>Combined Single Limit</u> for <u>Bodily Injury</u> and <u>Property Damage</u> of \$1,000,000 per occurrence
5. Professional Liability (Claims Made Form)	\$1,000,000 per claim, \$1,000,000 general aggregate limit, and a \$1,000,000 dedicated limit for CITY 's Audit Services Contract

- 16.4 Unless otherwise stated in this paragraph, Contractor agrees to obtain all insurance coverages with minimum limits of not less than those limits delineated in Section 16.3_(Insurance table) from each vendor subcontracted by Contractor and provide a Certificate of Insurance and Endorsement that names the Contractor and the **CITY** as an additional insured in the same manner as Contractor is required to issue such Certificates under this Agreement. It is agreed that the Professional Liability coverage limit for each Subcontractor will be no less than \$500,000 per claim, and a \$500,000 dedicated limit for CITY's Audit Services Contract.
- 16.5 The **CITY** shall be entitled, upon request and without expense, to receive copies of the policies, declaration page and all endorsements thereto as they apply to the limits required by the **CITY**, and may require the deletion, revision, or modification of particular policy terms, conditions, limitations or exclusions so long as consistent with the terms herein (except where policy provisions are established by law or regulation binding upon either of the parties hereto or the underwriter of any such policies). **CONTRACTOR** shall be required to comply with any such requests and shall submit a copy of the replacement certificate of insurance to **CITY** at the address provided below within 10 days of the requested change. **CONTRACTOR** shall pay any costs incurred resulting from said changes.

City of San Antonio
Attn: Finance Department
P.O. Box 839966
San Antonio, Texas 78283-3966

- 16.6 **CONTRACTOR** agrees that with respect to the above required insurance, all insurance policies are to contain or be endorsed to contain the following provisions:
- **CONTRACTOR's** Commercial General Liability Policy shall cover the **CITY**, its officers, officials, employees, volunteers, and elected representatives as additional insureds by blanket endorsement, as respects operations and activities of, or on behalf of, the additional insured performed under contract with the **CITY**,
 - **CONTRACTOR's** Auto Liability Policy shall cover the **CITY**, its officers, officials, employees, volunteers, and elected representatives as additional insureds by endorsement.
 - Workers' compensation and employers' liability policies will provide a waiver of subrogation in favor of the **CITY**.
 - Provide thirty (30) calendar days advance written notice directly to **CITY** of any suspension, cancellation, non-renewal, or material change in coverage, and not less than ten (10) calendar days advance notice for nonpayment of premium.

- 16.7 Within five (5) calendar days of a suspension, cancellation or non-renewal of coverage, **CONTRACTOR** shall provide a replacement Certificate of Insurance and applicable endorsements to **CITY**. **CITY** shall have the option to suspend **CONTRACTOR**'s performance should there be a lapse in coverage at any time during this Contract. Failure to provide and to maintain the required insurance shall constitute a material breach of this Contract.
- 16.8 If **CONTRACTOR** fails to maintain the aforementioned insurance, or fails to secure and maintain the aforementioned endorsements, the **CITY** may obtain such insurance, and deduct and retain the amount of the premiums for such insurance from any sums due under the Contract; however, procuring of said insurance by the **CITY** is an alternative to other remedies the **CITY** may have, and is not the exclusive remedy for failure of **CONTRACTOR** to maintain said insurance or secure such endorsement. In addition to any other remedies the **CITY** may have upon **CONTRACTOR**'s failure to provide and maintain any insurance or policy endorsements to the extent and within the time herein required, the **CITY** shall have the right to order **CONTRACTOR** to stop work hereunder, and/or withhold any payment(s) which become due to **CONTRACTOR** hereunder until **CONTRACTOR** demonstrates compliance with the requirements hereof.
- 16.9 Nothing contained in this Section 16 shall be construed as limiting in any way the extent to which **CONTRACTOR** may be held responsible for payments of damages to persons or property resulting from **CONTRACTOR**'s or its subcontractors' performance of the work covered under this Contract.
- 16.10 It is agreed that **CONTRACTOR**'s Commercial General Liability insurance shall be deemed primary and non-contributory with respect to any insurance or self insurance carried by the **CITY** for liability arising out of operations under this Contract.
- 16.11 It is understood and agreed that the insurance required is in addition to and separate from any other obligation contained in this Contract.

XVII. BUSINESS RISK ALLOCATIONS; STANDARD OF PERFORMANCE

- 17.1 **CONTRACTOR** covenants and agrees to FULLY INDEMNIFY and HOLD HARMLESS the **CITY** and the elected officials, employees, officers, directors, volunteers, and representatives of the **CITY**, individually or collectively, from and against any and all costs, claims, liens, damages, losses, expenses, fees, fines, penalties, proceedings, actions, demands, causes of action, liability and suits of any kind and nature for PERSONAL OR BODILY INJURY, DEATH AND TANGIBLE PROPERTY DAMAGE, made upon the **CITY** directly or indirectly arising out of, resulting from or related to **CONTRACTOR**'s activities under this Contract, including any acts or omissions of the **CONTRACTOR**, any agent, officer, director, representative, employee, consultant, or subcontractor of the **CONTRACTOR**, and their respective officers, agents, employees, directors and representatives while in the exercise of performance of the rights and duties under this Contract. The indemnity provided for in this paragraph shall not apply to any liability resulting from the negligence of **CITY**, its officers or employees in instances where such negligence causes personal injury, death or tangible

property damage. **IN THE EVENT CONTRACTOR AND CITY ARE FOUND JOINTLY LIABLE BY A COURT OF COMPETENT JURISDICTION, LIABILITY SHALL BE APPORTIONED COMPARATIVELY IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT, HOWEVER, WAIVING ANY GOVERNMENTAL IMMUNITY AVAILABLE TO THE CITY UNDER TEXAS LAW AND WITHOUT WAIVING ANY DEFENSES OF CITY OR CONTRACTOR UNDER TEXAS LAW.**

The provisions of this INDEMNIFICATION are solely for the benefit of the parties to this Contract and are not intended to create or grant any rights, contractual or otherwise, to any other person or entity.

CONTRACTOR shall advise **CITY** in writing within 24 hours of any claim or demand against the **CITY** or **CONTRACTOR** known to **CONTRACTOR** related to or arising out of **CONTRACTOR**'s activities under this Contract.

- 17.2 **CITY** will pay to **CONTRACTOR** all costs and all other sums or expenses of any nature or type whatsoever that are imposed upon or sought from **CONTRACTOR** that arise from and are directly related to **CITY**'s knowing misrepresentations, willful misconduct, or fraudulent behavior in connection with its activities under this Contract. **CONTRACTOR** shall advise **CITY** in writing within five business days of any demand, claim or proceeding to which **CONTRACTOR** believes this Section is applicable. **CITY** shall have the right, at its option and at its own expense, to defend any such demand, claim, or proceeding, or to participate in such defense. **CITY** and **CONTRACTOR** agree that this provision is not part of the consideration for this Contract, and should this provision be deemed not permitted by law, it is the desire and intention of both **CITY** and **CONTRACTOR** that this Contract not be declared void, but that rather, the Contract be construed in accordance with Article XXII. below.

- 17.3 **CONTRACTOR**'s liability under the terms of this Contract WILL NOT INCLUDE responsibility for any claimed exemplary or punitive damages even if **CONTRACTOR** was advised in advance of such potential damages. This provision SHALL NOT APPLY in the event of **CONTRACTOR**'s gross negligence or willful misconduct.

XVIII. INDEPENDENT CONTRACTOR

- 18.1 It is expressly understood and agreed that the **CONTRACTOR** provides services as an independent **CONTRACTOR** responsible for its own acts or omissions and that **CITY** shall in no way be responsible therefor. Neither party hereto has authority to bind the other or to hold out to third parties that it has the authority to bind the other.

XIX. CHANGES AND AMENDMENTS

- 19.1 Except where the terms of this Contract expressly provide otherwise, any alterations, additions, or deletions to the terms hereof, shall be effected by amendment, in writing, executed by both **CITY** and **CONTRACTOR**, and subject to approval by the **CITY** of San Antonio City Council, evidenced by passage of an ordinance.

- 19.2 The parties hereto understand and agree that any request(s) by the **CITY** to provide contingent additional services pursuant to Article IV shall not constitute an amendment to the provisions of this Contract.
- 19.3 It is understood and agreed by the parties hereto that changes in local, state and federal rules, regulations or laws applicable hereto may occur during the term of this Contract and that any such changes shall be automatically incorporated into this Contract without written amendment hereto, and shall become a part hereof as of the effective date of the rule, regulation or law.

XX. LICENSES/CERTIFICATIONS

- 20.1 **CONTRACTOR** warrants and confirms that **CONTRACTOR** and any other person designated to provide services hereunder has and shall maintain the requisite training, license and/or certification to provide said services, and meets and shall continue to meet all competence standards promulgated by all other authoritative bodies, as applicable to the services provided herein.

XXI. OTHER AGREEMENTS

- 21.1 It is acknowledged and understood by the parties hereto that this Contract, including the respective Annual Engagement Letter for each fiscal year executed pursuant to it, constitutes the entire agreement of the parties hereto with respect to its subject matter and supersedes all prior and contemporaneous representations, proposals, discussions and communications, whether oral or in writing. It is also acknowledged and understood by the parties hereto that with the execution of this Contract, the authorizing ordinance; the Annual Engagement Letters and any Exhibits to the Contracts constitute the final and entire agreement between **CITY** and **CONTRACTOR** and contain all of the terms and conditions agreed upon. It is also acknowledged and understood that at the inception of each annual audit, an engagement letter consistent with the provisions of this Contract shall be executed by **CITY** and **CONTRACTOR** and that engagement letter, once executed, shall be incorporated herein for that next fiscal year and shall supersede the previously attached engagement letter for audit services. In the event of a conflict or inconsistency between the terms of this Contract and the provisions of any of the engagement letters, ultimately attached hereto as Exhibit A, the terms of this Contract shall govern and prevail.

XXII. SEVERABILITY

- 22.1 If any clause or provision of this Contract is held invalid, illegal or unenforceable under present or future federal, state or local laws, including but not limited to the City Charter, City Code, or ordinances of the City of San Antonio, Texas, then and in that event it is the intention of the parties hereto that such invalidity, illegality or unenforceability shall not affect any other clause or provision hereof and that the remainder of this Contract shall be construed as if such invalid, illegal or unenforceable clause or provision was never contained herein; it is also the intention of the parties hereto that in lieu of each clause or provision of this Contract that is invalid, illegal, or unenforceable, there be

added as a part of the Contract, a clause or provision as similar in terms to such invalid, illegal or unenforceable clause or provision as possible which is legal, valid and enforceable.

XXIII. NOTICES

- 23.1 For purposes of this Contract, all official communications and notices among the parties shall be deemed sufficient if in writing and mailed, certified mail, postage prepaid, to the addresses set forth below, with the exceptions as stated in Section 10.4 and 10.5.

City of San Antonio
Attn: Ben Gorzell, Director of Finance
P. O. Box 839966
San Antonio, Texas 78283-3966

Grant Thornton LLP
Attn.: Angela Dunlap
1717 Main Street
Suite 1500
Dallas, Texas 75201

With a copy to: Grant Thornton LLP
Department of Risk, Regulatory & Legal Affairs
175 W. Jackson Blvd, 20th Floor
Chicago, IL 60604

XXIV. LAW APPLICABLE

- 24.1 This Contract shall be construed under and in accordance with the laws of the State of Texas without regard to the choice of law principles thereof and all obligations of the parties created hereunder are performable in Bexar County, Texas.
- 24.2 Any legal action or proceeding brought or maintained, directly or indirectly as a result of this Contract shall be heard and determined in the City of San Antonio, County of Bexar, Texas.

XXV. LEGAL AUTHORITY

- 25.1 The signer of this Contract for CONTRACTOR represents, and warrants, that she has full legal authority to execute this Contract on behalf of **CONTRACTOR** and to bind **CONTRACTOR** to all of the terms, conditions, provisions and obligations herein contained.

XXVI. PARTIES BOUND

- 26.1 This Contract shall be binding on and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, legal representatives, and successors, except

as otherwise expressly provided for herein.

XXVII. GENDER

- 27.1 Words of any gender used in this Contract shall be held and construed to include any other gender.

XXVIII. CAPTIONS

- 28.1 The captions contained in this Contract are for convenience of reference only, and in no way limit or enlarge the terms and/or conditions of this Contract.

EXECUTED and AGREED to this the _____ day of February, 2008

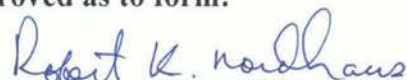
CITY:
CITY OF SAN ANTONIO


Pat DiGiovanni
Deputy City Manager

CONTRACTOR
GRANT THORNTON LLP


Angela Dunlap
Engagement Partner

Approved as to form:


Robert K. Nordhaus
Assistant City Attorney

LEMME

Insurance Brokers
and Consultants

VERIFICATION OF INSURANCE

ISSUED TO: City of San Antonio
Attn: Finance Department
PO Box 839966
San Antonio, TX 78283-3966

We, the undersigned Insurance Brokers, hereby verify that Lloyd's, London and various Insurance Companies have issued the following described Accountants' Professional Indemnity Insurance Policy, which is in force as of the date thereof-

PROFESSIONAL INDEMNITY INSURANCE

NAME OF INSURED: Grant Thornton LLP and others as more fully described in the Policy.

POLICY NUMBER: YD002850f

PERIOD OF INSURANCE: 12:01 a.m. May 1, 2007 to 12:01 a.m. May 1, 2008

SUM INSURED: \$1,000,000 Each claim and Annual Aggregate including costs, charges and expenses excess of the applicable Self Insured Retention as stated in the Policy.

SUBJECT TO ALL TERMS, CONDITIONS AND LIMITATIONS OF THE POLICY

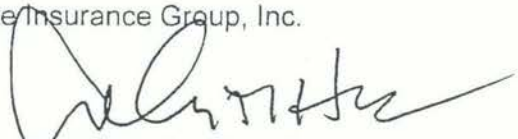
This document is furnished to you as a matter of information only and is not insurance coverage. Only the formal policy and applicable endorsements offer a comprehensive review of the coverage in place. The issuance of this document does not make the person or organization to whom it is issued an additional insured, nor does it modify in any manner the contract of insurance between the Insured and the Insurer. Any amendment, change or extension of such contract can only be effected by specific endorsement attached thereto.

Issued at Chicago, Illinois

Date: February 11, 2008

Lemme Insurance Group, Inc.

Per:


Executive Vice President

MARSH**CERTIFICATE OF INSURANCE**CERTIFICATE NUMBER
CHI-001809439-01

PRODUCER

MARSH USA INC.
500 W. MONROE STREET
CHICAGO, IL 60661
Attn: Chicago.CertRequest@marsh.com

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER OTHER THAN THOSE PROVIDED IN THE POLICY. THIS CERTIFICATE DOES NOT AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES DESCRIBED HEREIN.

COMPANIES AFFORDING COVERAGE

COMPANY

A FEDERAL INSURANCE COMPANY

COMPANY

B N/A

COMPANY

C

COMPANY

D

912048-ALL-LINES-07/08

INSURED

GRANT THORNTON LLP
ATTN: ANDREW WROBEL
1901 SOUTH MEYERS ROAD, SUITE 455
OAKBROOK TERRACE, IL 60181-5243

COVERAGES

This certificate supersedes and replaces any previously issued certificate for the policy period noted below.

3

THIS IS TO CERTIFY THAT POLICIES OF INSURANCE DESCRIBED HEREIN HAVE BEEN ISSUED TO THE INSURED NAMED HEREIN FOR THE POLICY PERIOD INDICATED NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THE CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, CONDITIONS AND EXCLUSIONS OF SUCH POLICIES. AGGREGATE LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

CO LTR	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	LIMITS
A	GENERAL LIABILITY	3575-66-56	07/31/07	07/31/08	GENERAL AGGREGATE \$ 2,000,000
	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY				PRODUCTS - COMP/OP AGG \$ 2,000,000
	<input type="checkbox"/> CLAIMS MADE <input checked="" type="checkbox"/> OCCUR				PERSONAL & ADV INJURY \$ 1,000,000
	<input type="checkbox"/> OWNER'S & CONTRACTOR'S PROT				EACH OCCURRENCE \$ 1,000,000
					FIRE DAMAGE (Any one fire) \$ 500,000
					MED EXP (Any one person) \$ 10,000
A	AUTOMOBILE LIABILITY	7499-51-58	07/31/07	07/31/08	COMBINED SINGLE LIMIT \$ 1,000,000
	<input type="checkbox"/> ANY AUTO				BODILY INJURY (Per person) \$
	<input type="checkbox"/> ALL OWNED AUTOS				BODILY INJURY (Per accident) \$
	<input type="checkbox"/> SCHEDULED AUTOS				PROPERTY DAMAGE \$
	<input checked="" type="checkbox"/> HIRED AUTOS				
	<input checked="" type="checkbox"/> NON-OWNED AUTOS				
	<input checked="" type="checkbox"/> COMP/COLL: \$1,000				
	GARAGE LIABILITY				AUTO ONLY - EA ACCIDENT \$
	<input type="checkbox"/> ANY AUTO				OTHER THAN AUTO ONLY: \$
					EACH ACCIDENT \$
					AGGREGATE \$
A	EXCESS LIABILITY	79833332	07/31/07	07/31/08	EACH OCCURRENCE \$ 1,000,000
	<input checked="" type="checkbox"/> UMBRELLA FORM				AGGREGATE \$ 1,000,000
	<input type="checkbox"/> OTHER THAN UMBRELLA FORM				\$
A	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY	7165-31-18	07/31/07	07/31/08	<input checked="" type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTHER \$
	THE PROPRIETOR/ PARTNERS/EXECUTIVE OFFICERS ARE <input checked="" type="checkbox"/> INCL <input type="checkbox"/> EXCL				EL EACH ACCIDENT \$ 500,000
					EL DISEASE-POLICY LIMIT \$ 500,000
					EL DISEASE-EACH EMPLOYEE \$ 500,000
A	OTHER "ALL RISK" PROPERTY EXTRA EXPENSE	EI083	07/31/07	07/31/08	LIMITS ON FILE WITH COMPANY DEDUCTIBLE 10,000

DESCRIPTION OF OPERATIONS/LOCATIONS/VEHICLES/SPECIAL ITEMS

RE: INDEPENDENT AUDIT SERVICES
CITY OF SAN ANTONIO, ITS OFFICERS, OFFICIALS, EMPLOYEES, VOLUNTEERS, AND ELECTED REPRESENTATIVES ARE INCLUDED AS ADDITIONAL INSURED UNDER THE GENERAL LIABILITY POLICY AS THEIR INTEREST MAY APPEAR, BUT ONLY TO THE EXTENT SUCH STATUS IS REQUIRED UNDER THEIR WRITTEN CONTRACT / WRITTEN AGREEMENT WITH THE NAMED INSURED.

CERTIFICATE HOLDER

CITY OF SAN ANTONIO
ATTN: FINANCE DEPARTMENT
P.O. BOX 839966
SAN ANTONIO, TX 78283-3966

CANCELLATION

SHOULD ANY OF THE POLICIES DESCRIBED HEREIN BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE INSURER AFFORDING COVERAGE WILL ENDEAVOR TO MAIL 30 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED HEREIN, BUT FAILURE TO MAIL SUCH NOTICE SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE INSURER AFFORDING COVERAGE, ITS AGENTS OR REPRESENTATIVES, OR THE ISSUER OF THIS CERTIFICATE.AUTHORIZED REPRESENTATIVE
Marsh USA Inc.
BY: Christy N. Miller*Christy N. Miller*

MM1(3/02)

VALID AS OF: 02/11/08

ACORDTM CERTIFICATE OF LIABILITY INSURANCESHH DATE
UODC 01-30-2008**PRODUCER**

USAA INSURANCE AGENCY INC/PHS
812846 P:(888)242-1430 F:(877)905-0457
PO BOX 33015
SAN ANTONIO TX 78265

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION
ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE
HOLDER. THIS CERTIFICATE DOES NOT AMEND, EXTEND OR
ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW.

INSURERS AFFORDING COVERAGE**INSURED**

ROBERT J WILLIAMS CPA
1100 N.W. LOOP 410 STE 700
SAN ANTONIO TX 78213

INSURER A: Hartford Lloyd's Ins Co

INSURER B:

INSURER C:

INSURER D:

INSURER E:

COVERAGES

THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. AGGREGATE LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	LIMITS
A	GENERAL LIABILITY	65 SBA KN2689	07/06/07	07/06/08	EACH OCCURRENCE \$1,000,000
	<input type="checkbox"/> COMMERCIAL GENERAL LIABILITY				FIRE DAMAGE (Any one fire) \$300,000
	<input type="checkbox"/> CLAIMS MADE <input checked="" type="checkbox"/> OCCUR				MED EXP (Any one person) \$10,000
	<input checked="" type="checkbox"/> General Liab				PERSONAL & ADV INJURY \$1,000,000
	GEN'L AGGREGATE LIMIT APPLIES PER:				GENERAL AGGREGATE \$2,000,000
	<input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input checked="" type="checkbox"/> LOC				PRODUCTS - COMP/DP AGG \$2,000,000
A	AUTOMOBILE LIABILITY	65 SBA KN2689	07/06/07	07/06/08	COMBINED SINGLE LIMIT (Ea accident) \$1,000,000
	<input type="checkbox"/> ANY AUTO				BODILY INJURY (Per person) \$
	<input type="checkbox"/> ALL OWNED AUTOS				BODILY INJURY (Per accident) \$
	<input checked="" type="checkbox"/> SCHEDULED AUTOS				PROPERTY DAMAGE (Per accident) \$
<input checked="" type="checkbox"/> HIRED AUTOS					
<input checked="" type="checkbox"/> NON-OWNED AUTOS					
	GARAGE LIABILITY				AUTO ONLY - EA ACCIDENT \$
	<input type="checkbox"/> ANY AUTO				OTHER THAN EA ACC \$
					AUTO ONLY: AGG \$
	EXCESS LIABILITY				EACH OCCURRENCE \$
	<input type="checkbox"/> OCCUR <input type="checkbox"/> CLAIMS MADE				AGGREGATE \$
	<input type="checkbox"/> DEDUCTIBLE				\$
	RETENTION \$				\$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY				WC STATU-TORY LIMITS OTH-ER \$
					E.L. EACH ACCIDENT \$
					E.L. DISEASE - EA EMPLOYEE \$
					E.L. DISEASE - POLICY LIMIT \$
	OTHER				

DESCRIPTION OF OPERATIONS/LOCATIONS/VEHICLES/EXCLUSIONS ADDED BY ENDORSEMENT/SPECIAL PROVISIONS

Those usual to the Insured's Operations. The City of San Antonio its officers, officials, employees, volunteers and elected representatives are named additional insured on General and Auto Liability per form SS0008.

CERTIFICATE HOLDER

☒ ADDITIONAL INSURED; INSURER LETTER: A**CANCELLATION**

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING INSURER WILL ENDEAVOR TO MAIL 30 DAYS WRITTEN NOTICE (10 DAYS FOR NON-PAYMENT) TO THE CERTIFICATE HOLDER NAMED TO THE LEFT, BUT FAILURE TO DO SO SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE INSURER, ITS AGENTS OR REPRESENTATIVES.

AUTHORIZED REPRESENTATIVE

City of San Antonio
Attn: Finance Department
Po Box 839966
San Antonio, TX 78283

ACORD CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)

02/08/2008

PRODUCER (972)419-7500 FAX (972)419-7555
Sleeper Sewell Insurance Services, Inc.
12222 Merit Dr., Suite 200
Dallas, TX 75251-2297

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW.

INSURED Webb Watch Corporation
PO Box 121244
Arlington, TX 76012

INSURERS AFFORDING COVERAGE

NAIC

INSURER A	Hartford Lloyds	38253
INSURER B	Hartford Casualty Ins. Co.	29424
INSURER C	Hartford, The	0005
INSURER D	Philadelphia Indemnity Ins Co	
INSURER E		

COVERAGES

THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. AGGREGATE LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR ADD'L LTR INSRD	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	LIMITS
A	GENERAL LIABILITY	46SBABD9265	08/18/2007	08/18/2008	EACH OCCURRENCE \$ 1,000,000
	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY				DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 300,000
	<input type="checkbox"/> CLAIMS MADE <input checked="" type="checkbox"/> OCCUR				MED EXP (Any one person) \$ 10,000
					PERSONAL & ADV INJURY \$ 1,000,000
					GENERAL AGGREGATE \$ 2,000,000
	GEN'L AGGREGATE LIMIT APPLIES PER				PRODUCTS - COMP/OP AGG \$ 2,000,000
	<input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC				
B	AUTOMOBILE LIABILITY	46UECTU4182	12/11/2007	12/11/2008	COMBINED SINGLE LIMIT (Ea accident) \$ 1,000,000
	<input checked="" type="checkbox"/> ANY AUTO				BODILY INJURY (Per person) \$
	<input type="checkbox"/> ALL OWNED AUTOS				BODILY INJURY (Per accident) \$
	<input type="checkbox"/> SCHEDULED AUTOS				PROPERTY DAMAGE (Per accident) \$
	<input checked="" type="checkbox"/> HIRED AUTOS				
<input checked="" type="checkbox"/> NON-OWNED AUTOS					
	GARAGE LIABILITY				AUTO ONLY - EA ACCIDENT \$
	<input type="checkbox"/> ANY AUTO				OTHER THAN EA ACC \$
					AUTO ONLY AGG \$
	EXCESS/UMBRELLA LIABILITY				EACH OCCURRENCE \$
	<input type="checkbox"/> OCCUR <input type="checkbox"/> CLAIMS MADE				AGGREGATE \$
					\$
	DEDUCTIBLE				\$
	RETENTION \$				\$
C	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY	46WBCRW7819	11/01/2007	11/01/2008	WC STATU-TORY LIMITS OTH-ER
	E L EACH ACCIDENT \$ 1,000,000				
	E L DISEASE - EA EMPLOYEE \$ 1,000,000				
	E L DISEASE - POLICY LIMIT \$ 1,000,000				
	If yes, describe under SPECIAL PROVISIONS below				
D	OTHER Professional Liability	TBD	02/07/2008	02/07/2009	Per Occurrence: \$500,000
	Claims Retro Date				Aggregate: \$500,000
					Retention: \$2,500

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES / EXCLUSIONS ADDED BY ENDORSEMENT / SPECIAL PROVISIONS

City of San Antonio is listed as Additional Insured as respects to General Liability and Auto Liability. Waiver of Subrogation applies to Workers Compensation. Professional Liability dedicated limits are for City's Audit Service Contract. Commercial General Liability shall be deemed Primary and Non-Contributory.

CERTIFICATE HOLDER

City of San Antonio
P.O. BOX 839966
San Antonio, TX 78283-3966

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING INSURER WILL ENDEAVOR TO MAIL 30 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT, BUT FAILURE TO MAIL SUCH NOTICE SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE INSURER, ITS AGENTS OR REPRESENTATIVES.

AUTHORIZED REPRESENTATIVE

Kristin Lonergan

IMPORTANT

If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

DISCLAIMER

The Certificate of Insurance on the reverse side of this form does not constitute a contract between the issuing insurer(s), authorized representative or producer, and the certificate holder, nor does it affirmatively or negatively amend, extend or alter the coverage afforded by the policies listed thereon.

ACORDTM**CERTIFICATE OF INSURANCE**

ISSUE DATE

01/07/2008

PRODUCERLOCKTON COMPANIES OF HOUSTON
5847 SAN FELIPE, SUITE 320
HOUSTON, TX 77057

This certificate is issued as a matter of information only and confers no rights upon the Certificate Holder. This Certificate does not amend, extend or alter the coverage afforded by the policies below.

COMPANIES AFFORDING COVERAGECompany
A Indemnity Insurance Co. of North AmericaCompany
BCompany
CCompany
DCompany
E**INSURED**ADMINISTAFF COMPANIES, INC.
19001 CRESCENT SPRINGS DRIVE
KINGWOOD, TX 77339
* SEE BELOW

This is to certify that the policies of insurance described herein have been issued to the Insured named herein for the policy period indicated. Notwithstanding any requirement, term or condition of contract or other document with respect to which this certificate may be issued or may pertain, the insurance afforded by the policies described herein is subject to all the terms, conditions and exclusions of such policies. Limits shown may have been reduced by paid claims.

CO LT	TYPE OF INSURANCE	POLICY NUMBER	EFFECTIVE EXPIRATION	LIMITS OF LIABILITY	
	GENERAL LIABILITY <input type="checkbox"/> Commercial General Liability <input type="checkbox"/> Claims Made <input type="checkbox"/> Occurrence <input type="checkbox"/> Owners' and Contractors' Protection <input type="checkbox"/> General Aggregate Limit applies per: <input type="checkbox"/> Policy <input type="checkbox"/> Project <input type="checkbox"/> Location			EACH OCCURRENCE	\$
				FIRE DAMAGE	\$
				MEDICAL EXPENSE	\$
				PERS. AND ADVERTISING INJURY	\$
				GENERAL AGGREGATE	\$
				PRODUCTS AND COMP. OPER. AGG.	\$
	AUTOMOBILE LIABILITY <input type="checkbox"/> Any Automobile <input type="checkbox"/> All Owned Automobiles <input type="checkbox"/> Scheduled Automobiles <input type="checkbox"/> Hired Automobiles <input type="checkbox"/> Non-owned Automobiles <input type="checkbox"/>			COMBINED SINGLE LIMIT	\$
				BODILY INJURY (Per person)	\$
				BODILY INJURY (Per accident)	\$
				PROPERTY DAMAGE (Per accident)	\$
				COMPREHENSIVE	
				COLLISION	
A	WORKERS' COMPENSATION AND EMPLOYERS' LIABILITY	C4530212A	10/01/2007 10/01/2008	WC Statutory Limit <input checked="" type="checkbox"/> Other <input type="checkbox"/>	
				EL EACH ACCIDENT	\$ 1,000,000
				EL DISEASE (Each employee)	\$ 1,000,000
				EL DISEASE (Policy Limit)	\$ 1,000,000
	EXCESS LIABILITY <input type="checkbox"/> Occurrence <input type="checkbox"/> Claims Made			EACH OCCURRENCE	\$
				AGGREGATE	\$
					\$
					\$
					\$
					\$
					\$

* MARTINEZ, ROSARIO & COMPANY, LLP. (1495500) IS COVERED THROUGH BLANKET ALTERNATE EMPLOYERS ENDORSEMENT FOR ALL EMPLOYEES UNDER CLIENT SERVICE AGREEMENT.

WAIVER OF SUBROGATION IN FAVOR OF CERTIFICATE HOLDER INCLUDED WHEN REQUIRED BY CONTRACT.

REFERENCE: INDEPENDENT AUDIT SERVICES

Signer, Tim F. Kelly, is President - Senior Account Advisor with Lockton Companies of Houston (agent), phone 713-458-5200.

CERTIFICATE HOLDER

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING INSURER WILL ENDEAVOR TO MAIL 30 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT, BUT FAILURE TO DO SO SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE INSURER, ITS AGENTS OR REPRESENTATIVES.

Authorized Representative

CITY OF SAN ANTONIO
ATTN: FINANCE DEPARTMENT
P O BOX 839966
SAN ANTONIO, TX 78283-3966

Workers' Compensation and Employers' Liability Policy

Named Insured

ADMINISTAFF, INC. L/C/F
MARTINEZ, ROSARIO & COMPANY, LLP
19001 CRESCENT SPRINGS DRIVE

Endorsement Number

Policy Number

Symbol: **RWC** Number: **C4530212A**

Policy Period

10/01/2007 TO 10/01/2008

Effective Date of Endorsement

10/01/2007

Issued By (Name of the Insurance Company)

INDEMNITY INSURANCE COMPANY OF NORTH AMERICA

Insert the policy number. The remainder of the information is to be completed only when this endorsement is issued subsequent to the preparation of the policy.

TEXAS WAIVER OF OUR RIGHT TO RECOVER FROM OTHERS ENDORSEMENT

This endorsement applies only to the insurance provided by the policy because Texas is shown in Item 3.A. of the Information Page.

We have the right to recover our payments from anyone liable for an injury covered by this policy. We will not enforce our right against the person or organization named in the Schedule, but this waiver applies only with respect to bodily injury arising out of the operations described in the Schedule, where you are required by a written contract to obtain this waiver from us.

This endorsement shall not operate directly or indirectly to benefit anyone not name in the Schedule.

Schedule

1. ☒ Specific Waiver

Name of person or organization:

CITY OF SAN ANTONIO

P O BOX 839966

SAN ANTONIO, TX 78283-3966

☐ Blanket Waiver

Any person or organization for whom the Named Insured has agreed by written contract to furnish this waiver.

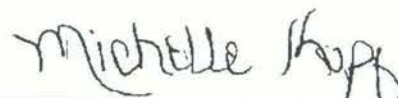
2. Operations:

PROJECT: INDEPENDENT AUDIT SERVICES

3. Premium:

The premium charge for this endorsement shall be 2% percent of the premium developed on payroll in connection with work performed for the above person(s) or organization(s) arising out of the operations described.

4. Advance Premium: \$0



Authorized Agent

ACORDTM CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
01/31/08

PRODUCER
ProTexn, Inc.
7557 Rambler Road, Suite 818
Dallas, Texas 75231
(214) 242-4880

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW.

INSURED
Martinez, Rosario & Company, LLP
115 E. Travis, Suite 1400
San Antonio, TX 78205
(210) 277-1898

INSURERS AFFORDING COVERAGE

NAIC #

INSURER A: James River Insurance Company

INSURER B:

INSURER C:

INSURER D:

INSURER E:

COVERAGES

THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. AGGREGATE LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR ADD'L LTR INSRD	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	LIMITS
	GENERAL LIABILITY <input type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS MADE <input type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC				EACH OCCURRENCE \$ DAMAGE TO RENTED PREMISES (Ea occurrence) \$ MED EXP (Any one person) \$ PERSONAL & ADV INJURY \$ GENERAL AGGREGATE \$ PRODUCTS - COM/OP AGG \$
	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS				COMBINED SINGLE LIMIT (Ea accident) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$
	GARAGE LIABILITY <input type="checkbox"/> ANY AUTO				AUTO ONLY - EA ACCIDENT \$ OTHER THAN EA ACC \$ AUTO ONLY: AGG \$
	EXCESS/UMBRELLA LIABILITY <input type="checkbox"/> OCCUR <input type="checkbox"/> CLAIMS MADE DEDUCTIBLE RETENTION \$				EACH OCCURRENCE \$ AGGREGATE \$ \$ \$ \$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? If yes, describe under SPECIAL PROVISIONS below				WC STATU-TORY LIMITS OTH-ER E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$
<input checked="" type="checkbox"/>	OTHER Professional Liability	00029671	02/04/2008	02/04/2009	PER CLAIM: \$500,000 AGGREGATE: \$500,000 DEDUCTIBLE: \$10,000 per claim

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES / EXCLUSIONS ADDED BY ENDORSEMENT / SPECIAL PROVISIONS

Accounting services soley for the City of San Antoino.
Retroactive Date: 02/04/2008
25% minimum earned premium

CERTIFICATE HOLDER

City of San Antonio
Attn: Finance Department
P O Box 839966
San Antonio, TX 78283-3966

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING INSURER WILL ENDEAVOR TO MAIL _____ DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT, BUT FAILURE TO DO SO SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE INSURER, ITS AGENTS OR REPRESENTATIVES.

AUTHORIZED REPRESENTATIVE



IMPORTANT

If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

DISCLAIMER

The Certificate of Insurance on the reverse side of this form does not constitute a contract between the issuing insurer(s), authorized representative or producer, and the certificate holder, nor does it affirmatively or negatively amend, extend or alter the coverage afforded by the policies listed thereon.

February 8, 2008

Mr. Ben Gorzell, Jr., CPA
Director of Finance
City of San Antonio
Finance Department
506 Dolorosa Street
San Antonio, Texas 78204

Dear Mr. Gorzell:

Thank you for discussing with us the requirements of our forthcoming engagement. This letter (the "Engagement Letter") documents our mutual understanding of the arrangements for the services described herein.

In the event of a conflict or inconsistency between the terms of this Engagement Letter and the provisions of the Audit Services Contract between Grant Thornton (defined below) and the Entity (also defined below) (the "Contract") the terms of the Contract shall govern and prevail.

Scope of services

Grant Thornton LLP ("Grant Thornton") will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information, which collectively comprise the entity's basic financial statements ("financial statements") of City of San Antonio, Texas (*collectively, the "Entity"*), as of and for the year ended September 30, 2007. Our engagement is subject to the satisfactory completion of a background investigation on the Entity, the Entity's key decision makers, other key personnel and affiliated entities.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America ("US GAAS") established by the American Institute of Certified Public Accountants ("AICPA"), the standards for financial audits of the U.S. Government Accountability Office's ("GAO") *Government Auditing Standards* ("GAGAS") issued by the Comptroller General of the United States, and the Single Audit Act Amendments of 1996 and the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* ("OMB Circular A-133") and the State of Texas Single Audit Circular. Our audit will include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant judgments and estimates made by management, as well as evaluating the overall financial statement presentation.

An audit conducted under US GAAS and GAGAS includes obtaining an understanding of internal control over financial reporting sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed. GAGAS further requires us to perform tests of the Entity's compliance with laws, regulations and provisions of contracts or grant agreements, in which noncompliance could have a direct and material effect on the determination of financial statement amounts. However, an audit is not designed to provide assurance on compliance or internal control over financial reporting or to identify immaterial instances of noncompliance or internal control deficiencies. Our responsibilities for communicating matters that come to our attention are discussed below.

1717 Main Street
Suite 1500
Dallas, TX 75201
T 214.561.2300
F 214.561.2370
W www.grantthornton.com

Mr. Ben Gorzell, Jr.
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February 8, 2008

When conducting an audit, US GAAS and GAGAS require the auditor to obtain reasonable assurance that the financial statements are free of material misstatement, whether caused by error, fraud or noncompliance. Although not absolute assurance, reasonable assurance is, nevertheless, a high level of assurance. However, an audit is not a guarantee of the accuracy of the financial statements and is subject to the inherent risk that errors, fraud or illegal acts, if they exist, might not be detected. Accordingly, a material misstatement or noncompliance with laws, regulations and provisions of contracts or grant agreements may remain undetected.

In accordance with OMB Circular A-133 and the State of Texas Single Audit Circular, we will also plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements of laws, regulations and provisions of contracts or grants that could have a direct and material effect on each major federal or state program for the year ended September 30, 2007 occurred. Our audit will include examining, on a test basis, evidence about the Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances, including performing tests of internal control to evaluate the effectiveness of the design and operation of controls considered relevant to preventing or detecting material noncompliance with requirements applicable to each major program. However, our audit will not provide an opinion on internal control over compliance or a legal determination of the Entity's compliance with such requirements.

Further, we will perform audit procedures on (a) the supplementary schedules of expenditures of federal and state awards required by OMB A-133 and the State of Texas Single Audit Circular and (b) the combining statements, and schedules and other supplementary information presented to fulfill the requirements of a Government Finance Officers' Association Comprehensive Annual Financial Report ("CAFR"). Such supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The purpose of our audit procedures will be to determine whether, in our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The management's discussion and analysis, budgetary comparison schedule and schedules of funding progress are not a required part of the basic financial statements. This supplementary information is also required by generally accepted accounting principles. We will apply certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we will not audit such information and therefore, we will express no opinion on it. In addition, the introductory and statistical sections presented to fulfill the requirements of CAFR will not be subjected to the audit procedures applied in the audit of the basic financial statements and, therefore, we will express no opinion on them.

Our overall objective will be the completion of the foregoing audit and, upon its completion and subject to its findings, the rendering of our reports, which will express our opinion on the financial statements and supplementary information (as discussed above). We will also render a report that includes our findings on the Entity's compliance with laws, regulations and provisions of contracts or grants and internal control over financial reporting based on our audit performed in accordance with GAGAS. Such report will be considered integral to the basic financial statements and will be referred to in our report thereon. However, providing an opinion on compliance with those provisions or on internal control over financial reporting is not an objective of our audit and accordingly, we will not express such an opinion.

Mr. Ben Gorzell, Jr.
Page 3
February 8, 2008

Pursuant to OMB Circular A-133 and the State of Texas Single Audit Circular, we will also report on the Entity's compliance, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended September 30, 2007. No opinion will be expressed in our report on internal control over compliance issued pursuant to OMB Circular A-133 and the State of Texas Single Audit Circular.

Management responsibilities

As you are aware, the financial statements are the responsibility of management. Management is responsible for the data and information set forth therein, as well as for the evaluation of the capability and integrity of the Entity's personnel. Management should discuss with the City Council (hereinafter referred to as "those charged with governance") the:

- appointment, compensation and oversight of our work as independent auditors. Management should ensure that those charged with governance understand their responsibility to periodically review all audit and non-audit services that we perform.
- adequacy of the Entity's internal control over financial reporting and federal financial assistance and the identification of any significant deficiencies (reportable conditions) or material weaknesses, including the related corrective action proposed
- Entity's critical accounting policies and, for the initial selection of or changes to significant accounting policies or their application, the reasons for the selection or the change
- process used by management in formulating particularly sensitive accounting judgments and estimates and whether the possibility exists that future events affecting these estimates may differ markedly from current judgments
- basis used by management in determining that uncorrected misstatements, including missing disclosures, proposed by us, but not recorded by the Entity, are immaterial, both individually and in the aggregate, to the financial statements taken as whole. Management should also discuss whether any of these uncorrected misstatements could potentially cause future financial statements to be materially misstated.

Management is also responsible for:

- fairly presenting the financial statements in conformity with generally accepted accounting principles which includes adopting sound accounting practices and complying with changes in accounting principles and related guidance
- making all financial records, documentation of internal control over financial reporting and federal financial assistance and related information available to us during our engagement
- making us aware of any significant vendor relationships in which the vendor has the responsibility for program compliance
- ensuring that the Entity complies with all laws, regulations, contracts and grants and for informing us of any known violations of such laws, regulations, contracts and grants. The Entity should identify and disclose to us all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts or other significant financial data.
- taking timely and appropriate steps to remedy fraud, illegal acts, violations of contracts or grant agreements or abuse that we may report
- establishing and maintaining effective internal control over financial reporting and federal financial assistance, which includes adequate accounting records and procedures to safeguard the Entity's assets,

Mr. Ben Gorzell, Jr.
Page 4
February 8, 2008

and for informing us of all known significant deficiencies and material weaknesses in, and changes in, internal control over financial reporting and federal financial assistance

- informing us of its views about the risk of fraud within the Entity and its awareness of any known or suspected fraud and the related corrective action proposed
- adjusting the financial statements, including disclosures, to correct material misstatements and for affirming to us in a representation letter that the effects of any uncorrected misstatements, including missing disclosures, aggregated by us during the current engagement, including those pertaining to the latest period presented, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole
- informing us of any events occurring subsequent to the date of the financial statements through the date of our auditor's report, which may affect the financial statements or the related disclosures
- informing us of any subsequent discovery of facts that may have existed at the date of our auditor's report, which may have affected the financial statements or the related disclosures
- taking corrective action on any reported findings and/or questioned costs reported to them and preparing a summary schedule of prior audit findings and a corrective action plan, if applicable, as required by OMB Circular A-133 and the State of Texas Single Audit Circular.
- submitting the reporting package (including financial statements, schedule of expenditures of federal awards, auditor's reports and, if applicable, a summary schedule of prior audit findings and a corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditor's reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit.

Accordingly, we will require management's cooperation to complete our services. In addition, US GAAS and GAGAS require us to obtain written representations concerning such matters, which we will rely upon.

Our responsibilities

Professional standards require us to determine that certain matters related to the conduct of the audit that come to our attention are communicated to those charged with governance, including:

- fraud involving senior management and fraud, whether caused by senior management or other employees, that causes a material misstatement of the financial statements
- illegal acts, unless clearly inconsequential and violations of provisions of contracts or grant agreements and abuse that causes a material misstatement of the financial statements or non-compliance with the provisions of a major federal financial assistance program. To fulfill our responsibilities, we may need to consult with Entity counsel and/or counsel of our choosing about any such illegal acts that we become aware of. Additional fees, including legal fees, if any, will be billed to the Entity. The Entity agrees to ensure full cooperation with any procedures that we may deem necessary to perform.
- disagreements with management and other serious difficulties encountered in performing the audit
- various matters related to the Entity's accounting policies and financial statements, such as the basis for our conclusions regarding the reasonableness of significant judgments and estimates made by management, audit adjustments, uncorrected misstatements and accounting policies

Mr. Ben Gorzell, Jr.
Page 5
February 8, 2008

- significant deficiencies and material weaknesses in internal control over financial reporting and federal financial assistance that come to our attention during the course of our engagement.

It should be noted that because the determination of abuse is subjective, we have no responsibility to design the audit to provide reasonable assurance of detecting abuse. Abuse is distinct from fraud, illegal acts and violations of provisions of contracts or grant agreements. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances.

In addition, if the Entity is required by law or regulation to report fraud, illegal acts, violations of provisions of contracts or grant agreements or abuse to specified external parties and fails to report them, we are required to communicate such an awareness to those charged with governance. We may also be required to report such matters directly to the external party specified in the law or regulation.

Use of our reports

The inclusion, publication or reproduction by the Entity of any of our reports in documents containing information in addition to the financial statements and our report(s) thereon (for example, annual reports, bond offerings, Comprehensive Annual Financial Reports, OMB Circular A-133 Data Collection Forms and regulatory filings) may require us to perform additional procedures to fulfill our professional or legal responsibilities. Accordingly, our reports should not be used for any such purposes without our prior written permission. In addition, to avoid unnecessary delay or misunderstandings, it is important that you give us timely notice of the Entity's intention to issue any such document.

The report on compliance with laws, regulations and provisions of contracts or grant agreements and internal control over financial reporting and the report on compliance and internal control for major programs issued in accordance with OMB A-133 will each include a statement that restricts their use to specified parties. Each report is intended solely for the information and use of the City Council, management, federal and state awarding agencies and, if applicable, pass-through entities. These reports are not intended to be and should not be used by anyone other than these specified parties. However, as required by GAGAS, unless the reports are restricted by law or regulation or contain privileged and confidential information, the reports are required to be made available for public inspection.

Other services

Other attestation reports

In addition to the reports already outlined, we will issue a report on the Schedule of Expenditures for Passenger Facility Charges

Other non-audit services

Any other permitted non-audit services that you request will be covered in a separate engagement letter. Please note that the AICPA, the GAO, state laws and regulations and other regulators prescribe limitations on non-audit services we may perform without impairing our independence.

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Fees

Progress billings

Our billings for the services set forth in this Engagement Letter, which we have estimated will total \$800,000 will be rendered on a bi-weekly basis for work performed in the previous two weeks, and are payable within 20 days of receipt.

If it appears that the estimated fee will be exceeded, we will bring this to your attention.

Additional billings

Of course, circumstances may arise that will require us to do more work. Some of the more common circumstances include: changing auditing and reporting requirements from the AICPA, GAO, the Government Accounting Standards Board ("GASB") or other principles-setting bodies, incorrect accounting applications or errors in Entity records, failure to furnish accurate and complete information to us on a timely basis and unforeseen events, including regulatory changes. We are enclosing an explanation of various matters that can cause us to perform work in excess of that contemplated by our fee estimate.)

At Grant Thornton, we pride ourselves on our ability to provide outstanding service and meet our clients' deadlines. To help accomplish this goal, we work hard to have the right professionals available. This involves complex scheduling models to balance the needs of our clients and the utilization of our people, particularly during peak periods of the year. Last minute client requested scheduling changes result in costly downtime due to our inability to make alternate arrangements for our staff.

We will contact you shortly to coordinate a convenient time for Grant Thornton to begin work. If you do not provide proper notice, which we consider to be one week, of your inability to meet the start date established for any reason, or do not provide us with sufficient information required to complete the work in a timely manner, additional billings will be rendered for any downtime of our professional staff.

Adoption of new standards

The GASB, the Emerging Issues Task Force and other regulatory bodies frequently issue new accounting standards and guidance. In some circumstances, standards may be issued and become effective in the same period, providing a limited implementation phase. Accordingly, the estimated fees do not include the impact of changes to accounting standards and guidance on this year's audit. The estimated fees also do not include additional audit procedures related to restatement or reclassification of prior period financial statements.) In such circumstances, we will discuss the additional audit procedures and related fees with you.

Right to terminate services for nonpayment

In the event of nonpayment, we retain the right to (a) suspend the performance of our services, (b) change the payment conditions under this Engagement Letter, or (c) terminate our services. If we elect to suspend our services, such services will not be resumed until the Entity's account is paid as agreed. Alternatively, if we elect to terminate our services for nonpayment, the Entity will be obligated to compensate us for all time expended and to reimburse us for all expenses through the date of termination.

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Other matters

Relationship to Grant Thornton International

Grant Thornton is the U.S. member firm of Grant Thornton International ("GTI"), a global organization of member firms in over 100 countries. Member firms are not members of one international partnership or otherwise legal partners with each other. There is no common ownership, control, governance, or agency relationship between member firms.

Use of third-party service providers

Grant Thornton may use third-party service providers, such as specialists, to assist in providing our professional services. The partners and staff of GTI member firms are considered third-party service providers.

Grant Thornton intends to engage the following third-party service providers to assist us as follows:

- Harvest Investments, LTD. – (valuation of investment portfolio)

The engagement of any additional third-party service provider(s) by Grant Thornton shall be subject to the provisions and requirements of Article XIII of the Audit Services Contract between Entity and Grant Thornton. Entity's written consent shall not be unreasonably withheld, and may be executed by its Director of Finance.

The Entity hereby authorizes us to disclose its information to the above named and any additional Entity-approved third-party service provider(s).

Peer review report

GAGAS requires that we provide you with a copy of our most recent triennial quality control review report. Accordingly, our May 31, 2005 Peer Review Report, which includes the description of the peer review process, the Letter of Comment and the Grant Thornton LLP Letter of Response accompany this Engagement Letter.

Employment of Grant Thornton personnel

When we lose a valued member of our engagement team, we not only incur significant expenses in hiring and training his or her replacement, but his or her employment by the Entity may raise independence issues, which could cause us to withdraw from the engagement. Accordingly, during the term of this engagement and for a period of one (1) year after the services are completed, the Entity agrees not to solicit, directly or indirectly, or hire any of our personnel participating in the performance of this engagement without our express written consent. If the Entity violates this provision, the Entity will pay Grant Thornton a fee equal to the hired person's annual salary in effect at the time of the violation to reimburse the estimated costs of hiring and training replacement personnel.

Electronic transmittals

During the course of our engagement, Grant Thornton or the Entity may need to electronically transmit confidential information to each other and to other entities engaged by either party. E-mail is a fast and convenient way to communicate. However, e-mail is not a secure means of communication and thus, confidentiality could be compromised. The Entity agrees to the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between Grant Thornton and the Entity and between Grant Thornton and third-party service providers or other entities engaged by either Grant Thornton or the Entity.

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Standards of performance

We will perform our services in conformity with the terms expressly set forth in this Engagement letter, including all applicable professional standards.

Authorization

In the event of a conflict or inconsistency between the terms of this Engagement Letter and the provisions of the Audit Services Contract between Grant Thornton (defined below) and the Entity (also defined below) (the "Contract") the terms of the Contract shall govern and prevail.

Please confirm your acceptance of this Engagement Letter by signing below and returning one copy to us in the enclosed self-addressed envelope. We appreciate the opportunity to work with the Entity and assure you that this engagement will be given our closest attention.

Very truly yours,

GRANT THORNTON LLP

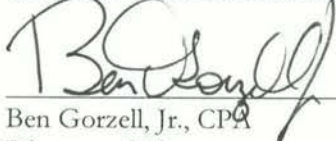


Angela Dunlap
Partner

enc. Matters that can cause work in excess of fee estimate
May 31, 2005 Peer Review Report
May 31, 2005 Letter of Comment
May 31, 2005 Grant Thornton LLP Letter of Response

Agreed and Accepted by:

CITY OF SAN ANTONIO, TEXAS



Ben Gorzell, Jr., CPA
Director of Finance

Date: 2/26/08

To Our Clients:

We want you to receive the maximum value for our professional services and to perceive that our fees are reasonable and fair. However, in seeking to provide you with such value, we find there are various matters that can cause us to perform work in excess of that contemplated by our fee estimate. The following explains the matters that arise most frequently.

Changing requirements

Today, there are numerous governmental or rule-making bodies that regularly add or change various requirements. Although we attempt to plan our work to anticipate the requirements that will affect our engagement, three types of situations make this difficult. Sometimes, these new requirements are not communicated in time for us to anticipate their effects in our preliminary planning. Secondly, in spite of our anticipation and planning, the work necessary to comply with new requirements may be underestimated. Finally, in some instances, you may decide that it is advantageous to you to have them applied immediately.

Incorrect accounting applications or errors in entity records

We generally form our fee estimates on the expectation that the entity's accounting records are in good order so that our work can be completed based upon our normal testing and other procedures. However, should we find numerous errors, incomplete records or disorganized bookkeeping methods, we will have to do additional work to determine that the necessary corrections have been made and properly reflected in the financial statements.

Lack of audit facilitation or timely preparation

To minimize your costs, we plan the means by which your personnel can facilitate the audit (e.g., what schedules they will prepare, how to prepare them, the supporting documents that need to be provided, etc.). We also discuss matters such as availability of your key personnel, deadlines and working conditions. Indeed, the information concerning these matters that you furnish to us is a key element in our fee quotation. Therefore, if your personnel are unable, for whatever reasons, to provide these materials on a timely basis, it may substantially increase the work we must do to complete the engagement within the established deadlines. Moreover, in some circumstances, this may require a staff withdrawal, as discussed in the following paragraph.

Staff withdrawal

A staff withdrawal consists of our removing one or all staff because the condition of the entity's records, or the inability of entity personnel to provide agreed upon materials within the established timetable, makes it impossible for us to perform our work in a timely, efficient manner, as established by our engagement plan. Sometimes, a complete staff withdrawal is necessary to permit an orderly audit approach. A staff withdrawal is not necessarily an adverse reflection on entity personnel. However, it involves additional costs, as we must reschedule our personnel, incur additional start-up costs, etc., to prevent total engagement costs from increasing significantly.

New award programs or program noncompliance

Our fee estimates assume that award programs audited as major will remain relatively consistent with prior years. When new awards are received, it may require us to audit additional programs to achieve the appropriate testing coverage. In such circumstances, additional fees may be incurred beyond what was previously contemplated. Furthermore, if the results of our procedures identify material program noncompliance or internal control deficiencies, which require extensive research or discussions with the cognizant, oversight agency or funding agency, an expansion of our audit scope and additional audit fees may result.

Unforeseen events

Even though we communicate frequently with clients and plan our engagement with entity management and their staff, unforeseen events can occur. Examples include: accounting problems, litigation, changes in the entity's business or business environment, contractual or other difficulties with suppliers or customers, etc. When those circumstances occur, additional time is needed to provide the entity with assistance and complete our engagement in accordance with professional standards.

Again, we emphasize that we strive to give you optimum value for our professional services. Fee quotations are provided based upon the facts and circumstances that you describe to us. However, unlike the sale of products, the performance of professional services is affected by many variables, such as the foregoing, which may cause fee estimates to change.

Very truly yours,



Angela Dunlap
Partner



February 2, 2006

To the Partners of Grant Thornton LLP and
the Center for Public Company Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Grant Thornton LLP (the firm) applicable to non-SEC issuers in effect for the year ended May 31, 2005, and have issued our report thereon dated February 2, 2006. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in the report, which should be read in conjunction with this letter.

The comments and recommendations in this letter represent matters where there was more than a remote possibility that the firm would not comply with professional standards on accounting and auditing engagements, even though there was reasonable assurance of complying with those standards. This evaluation was made in part by considering the nature, causes, pattern and pervasiveness of instances of noncompliance noted in the peer review process.

Independence, Integrity and Objectivity

Comment

The firm's independence policies require that all individuals regularly review the firm's Restricted Investment List (RIL), and annually certify their compliance with the firm's independence policies and timely evaluate the impact of changes to the RIL throughout the year.

The firm's quality control and monitoring procedures identified frequent noncompliance with Firm policies in reporting RIL conflicts arising from equity ownership or other relationships with clients. Significant growth in the number of entities identified in the RIL makes effective monitoring by partners and managers increasingly difficult.

The issues identified represented noncompliance with firm policies that exceed professional standards. Although those instances of noncompliance did not impair the firm's independence with regard to professional standards, similar problems could occur in the future that could result in violations of professional standards.

To the Partners of Grant Thornton LLP and
the Center for Public Company Audit Firms Peer Review Committee
February 2, 2006

Recommendation

We recommend that the Firm strengthen its procedures for monitoring potential independence conflicts. We understand the firm has implemented an automated investment tracking system for partners and managers. This should improve monitoring and permit early identification of potential issues and allow for appropriate resolution consistent with professional standards.

Engagement Performance

Comment

The firm's quality control policies and procedures address the performance and documentation requirements for fraud and internal control testing. In some instances, engagement teams failed to either perform all required procedures or thoroughly document the work performed. These instances included the development of expectations when substantive analytics were used, inquiries regarding fraud, and clear resolution of potential control findings identified.

We believe the cause of the deficiencies noted stems from misunderstandings in the implementation of a new electronic tool for documenting internal control considerations and the lack of a consistent documentation response to the firm's required procedures. None of the failures required the firm to disclaim, modify or recall previously issued reports.

Recommendation

We believe compliance would be improved if the firm provided the following:

- Summarized guidance in a formal firm communication and additional training emphasis that specifically re-addresses the required components of internal control documentation.
- A methodology for requiring documentation of expectations in substantive analytics.
- Either (a) a separate work program to address fraud inquiries, brainstorming and predictability and/or a consistent methodology, or (b) a template for documenting the response to those requirements.

Comment

In a few instances, material errors or omissions in the application of GAAP were identified in the internal practice review or our peer review. For certain other engagements, additional audit work was required to determine that the financial statements were not materially misstated, or that the workpapers were in compliance with

To the Partners of Grant Thornton LLP and
the Center for Public Company Audit Firms Peer Review Committee
February 2, 2006

GAAS. While the individual failures relate to compliance with specific components of GAAP or professional standards, the number and nature of these issues points to the impact of rapid growth in the client base; whether a sufficient independent review of the financial statements, report and work papers was performed prior to issuance; and whether sufficient training is provided to personnel on accounting matters and quality expectations.

Recommendation

We believe the firm should continue to evaluate its engagement risk evaluation policies and its policies for assignment and depth of concurring reviews to further reduce the risk of audit failure. Improvements to concurring review may include one or a combination of the following approaches:

- The process of assigning concurring reviewers should be strengthened to assure that reviewers with appropriate technical skills are assigned.
- Enhancing the content, use and review of the financial statement disclosure checklist.
- Extending the concurring review process to a greater population of clients than those currently required by the quality control system.
- Establishing and communicating clear expectations for the nature, extent and timing of concurring reviews including the extent of work papers to be reviewed.

Many of the GAAP errors and omissions noted in engagements selected for review did not involve new or highly complex accounting issues. Rather, they involved compliance with standards that are broad-based and have been in existence for several years. We believe the firm should continue to evaluate training program content and delivery (live presentations versus web-based delivery) to better equip its personnel, staff through partners, to address accounting matters.

BKD, LLP

February 8, 2006

Center for Public Company Audit Firms Peer Review Committee
c/o American Institute of Certified Public Accountants
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

Ladies and Gentlemen:

This letter represents our response to the report and letter of comments issued in connection with our firm's peer review for the year ended May 31, 2005. All of the necessary changes to firm policies and procedures will be made and closely monitored by firm leadership, practice reviewers and the National Professional Standards Group. In a number of cases we have already implemented new processes or held applicable training.

Independence, Integrity and Objectivity

Restricted Investment List Review and Independence Monitoring

The firm recently enhanced its independence policies and procedures applicable to partners and managers. These requirements were communicated in mandatory training held in October 2005 through January 2006. As noted in the letter of comments, this training included introduction of a new automated investment tracking system with full implementation in all offices by January 31, 2006. The system is designed to facilitate real-time partner and manager monitoring of their investment holdings and assists them in assessing potential new investments. It features immediate notification when there is a violation or potential violation of independence standards. The system is also monitored daily by members of our Ethical Standards team. This training also emphasized the firm's policies that require partners and managers to regularly monitor changes to the Restricted Investment List.

Engagement Performance

Fraud, Internal Control and Analytical Procedures

At the December 2005 Assurance Leaders Summit and in subsequent local office sessions, we communicated policy and procedure updates applicable to fraud inquiries, testing internal controls and, when applicable, the use of substantive analytics. Improvements to our processes were also communicated in firm bulletins to all Assurance personnel. Documentation requirements were featured including emphasizing the need to document expectations when analytics were used as a substantive test.

Fraud inquiries and related documentation were also a major focus in the Summit and local office training. In January 2006 new guidance was issued for assessing identified internal control weaknesses. The guidance includes introduction of a *Control Deficiency Evaluation Template* to assist engagement teams in categorizing internal control deficiencies and documenting their conclusions.

As part of an ongoing assessment of our policies and procedures we will continue to evaluate whether further policy, procedure and tool enhancements in these areas are needed.

GAAP and GAAS Application and Concurring Review

One of Grant Thornton's 2006 strategic initiatives is Quality and Risk Management. As part of our ongoing efforts to continuously improve quality and to strengthen risk management, we have re-evaluated our concurring reviewer policies, procedures and tools as well as the content and use of our disclosure checklist. Also, the firm is investing in further development of its core assurance training content and delivery approaches.

At the December 2005 Assurance Leaders Summit and subsequent local office training, we specifically clarified and emphasized the concurring reviewer role and responsibilities. This session included assignment of concurring reviewers, expectations about concurring reviewer qualifications, review timing, depth of procedures, including the extent of workpaper review, and the importance of the concurring review to our quality control processes.

Also, we recently implemented a new policy that requires a concurring review on all audit engagements whenever the engagement partner is a new partner, whether from direct admission to the firm or through internal promotion. We are currently addressing further changes to our concurring review policies that will increase the number of engagements subject to concurring review and improve the documentation of the reviews performed. We will continue to monitor these policies and make additional changes as necessary to support the importance of this role. We also agree with the suggestion to enhance the use of our disclosure checklist. Changes to its content and use will be made as appropriate.

Expanding the nature, depth and timing of our core accounting and auditing training is a firm priority. We have planned a two-day Assurance Leadership Conference in June 2006 for all assurance partners and managers which will include several accounting and auditing sessions. We also have plans to increase the accounting and auditing course content for our core staff training.

GRANT THORNTON LLP



February 2, 2006

To the Partners of Grant Thornton, LLP
and the Center for Public Company Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Grant Thornton, LLP (the firm) applicable to non-SEC issuers in effect for the year ended May 31, 2005. The firm's accounting and auditing practice applicable to SEC issuers was not reviewed by us since the Public Company Accounting Oversight Board (PCAOB) is responsible for inspecting that portion of the firm's accounting and auditing practice in accordance with PCAOB requirements. 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 complying 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 (the AICPA). The design of the system, and compliance with it, are the responsibilities of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with that system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Committee of the Center for Public Company Audit Firms and included procedures to plan and perform the review that are summarized in the attached description of the peer review process. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it since it was based on selective tests. 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 that 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 applicable to the non-SEC issuers of Grant Thornton, LLP in effect for the year ended May 31, 2005, 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 applicable professional standards.

As is customary in a peer review, we have issued a letter under this date that sets forth comments relating to certain policies and procedures or compliance with them. The matters described in the letter were not considered to be of sufficient significance to affect the opinion expressed in this report.

BKD, LLP

Attachment to the Peer Review Report of Grant Thornton, LLP Description of the Peer Review Process

Overview

Firms enrolled in the AICPA Center for Public Company Audit Firms' (the Center) Peer Review Program have their system of quality control periodically reviewed by independent peers. These reviews are system and compliance oriented with the objectives of evaluating whether:

- The reviewed firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers has been designed to meet the requirements of the Quality Control Standards established by the AICPA.
- The reviewed firm's quality control policies and procedures applicable to non-SEC issuers were being complied with to provide the firm with reasonable assurance of complying with professional standards.

A peer review is based on selective tests and directed at assessing whether the design of and compliance with the firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers provides the firm with reasonable, not absolute, assurance of complying with professional standards. Consequently, a peer review on the firm's system of quality control is not intended to, and does not, provide assurance with respect to any individual engagement conducted by the firm or that none of the financial statements audited by the firm should be restated.

The Center's Peer Review Committee (PRC) establishes and maintains peer review standards. At regular meetings and through report evaluation task forces, the PRC considers each peer review, evaluates the reviewer's competence and performance, and examines every report, letter of comments, and accompanying response from the reviewed firm that states its corrective action plan before the peer review is finalized. The Center's staff plays a key role in overseeing the performance of peer reviews working closely with the peer review teams and the PRC.

Once the PRC accepts the peer review reports, letters of comments, and reviewed firms' responses, these documents are maintained in a file available to the public. In some situations, the public file also includes a signed undertaking by the firm agreeing to specific follow-up action requested by the PRC.

Firms that perform audits or play a substantial role in the audit of one or more SEC issuers, as defined by the Public Company Accounting Oversight Board (PCAOB), are required to be registered with and have their accounting and auditing practice applicable to SEC issuers inspected by the PCAOB. Therefore, we did not review the firm's accounting and auditing practice applicable to SEC issuers.

Planning the Review for the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers

To plan the review of Grant Thornton, LLP, we obtained an understanding of (1) the nature and extent of the firm's accounting and auditing practice, and (2) the design of the firm's system of quality control sufficient to assess the inherent and control risks implicit in its practice. Inherent

risks were assessed by obtaining an understanding of the firm's practice, such as the industries of its clients and other factors of complexity in serving those clients, and the organization of the firm's personnel into practice units. Control risks were assessed by obtaining an understanding of the design of the firm's system of quality control, including its audit methodology, and monitoring procedures. Assessing control risk is the process of evaluating the effectiveness of the reviewed firm's system of quality control in preventing the performance of engagements that do not comply with professional standards.

Performing the Review for the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers

Based on our assessment of the combined level of inherent and control risks, we identified practice units and selected engagements within those units to test for compliance with the firm's system of quality control. The engagements selected for review included engagements performed under the Government Auditing Standards, audits performed under FDICIA, multi-office audits, and audits of employee benefit plans. The engagements selected for review represented a cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagement reviews included examining working paper files and reports and interviewing engagement personnel.

The scope of the peer review also included examining selected administrative and personnel files to determine compliance with the firm's policies and procedures for the elements of quality control pertaining to independence, integrity, and objectivity; personnel management; and acceptance and continuance of clients and engagements. Prior to concluding the review, we reassessed the adequacy of scope and conducted a meeting with firm management to discuss our findings and recommendations.



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