

• t: (909) 307-2323
• f: (909) 825-9900
• 1940 orange tree lane #100
• redlands, ca 92374



Audit Engagement Letter

Tuesday, April 25, 2023

Morongo Valley Community Services District
P.O. Box 46
Morongo Valley, CA 92256

To the Governing Body of Morongo Valley Community Services District (“Organization”):

The following represents our understanding of the services we will provide the Organization.

You have requested that we audit the governmental activities and each major fund of the Organization, as of June 30, 2023, and for the year then ended and the related notes, which collectively comprise the Organization’s basic financial statements as listed in the table of contents. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and the State Controller’s Minimum Audit Requirements and Reporting Guidelines for California Special Districts will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board require that the included supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. As part of our engagement, we will apply certain limited procedures to the required supplementary information (RSI) in accordance with auditing standards generally accepted in the United States. These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation and comparing the information for consistency with management’s responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI. The following RSI is required by accounting principles generally accepted in the United States of America. This RSI will be subjected to certain limited procedures but will not be audited:

- Management’s Discussion and Analysis

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actuals - General Fund



Audit Engagement Letter *(continued)*

Also, the document we submit to you will include the following additional information that will not be subjected to the auditing procedures applied in our audit of the financial statements:

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds

Calculations of Appropriation Spending Limit

The supplementary information accompanying the financial statements will be presented for purposes of additional analysis and are not a required part of the financial statements. Such information will be subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Auditor Responsibilities

We will conduct our audit in accordance with GAAS and the State Controller’s Minimum Audit Requirements and Reporting Guidelines for California Special Districts. As part of an audit in accordance with GAAS and the State Controller’s Minimum Audit Requirements and Reporting Guidelines for California Special Districts, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Morongo Valley Community Services District’s ability to continue as a going concern for a reasonable period of time.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to any other periods.



Compliance with Laws and Regulations

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Organization's compliance with certain provisions of laws, regulations, contracts, and grants that could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions is not an objective of our audit, and accordingly, we will not express such an opinion.

Management's Responsibilities

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

- For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
- For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements; and
- To provide us with:
 - Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;
 - Additional information that we may request from management for the purpose of the audit;
 - Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence;
- For including the auditor's report in any document containing financial statements that indicates that such financial statements have been audited by the entity's auditor;
- For identifying and ensuring that the entity complies with the laws and regulations applicable to its activities;
- For adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current year period(s) under audit are immaterial, both individually and in the aggregate, to the financial statements as a whole;
- For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
- For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets;
- For informing us of any known or suspected fraud affecting the entity involving management, employees with significant role in internal control and others where fraud could have a material effect on the financials; and
- For the accuracy and completeness of all information provided.

With regard to the supplementary information referred to above, you acknowledge and understand your responsibility: (a) for the preparation of the supplementary information in accordance with the applicable criteria; (b) to provide us with the appropriate written representations regarding supplementary information; (c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information; and (d) to present the supplementary information with the audited financial statements, or if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by you of the supplementary information and our report thereon.



Audit Engagement Letter *(continued)*

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

Reporting

We will issue a written report upon completion of our audit of the Organization's basic financial statements. Our report will be addressed to the board of directors of the Organization. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph(s) to our auditor's report, or if necessary, withdraw from the engagement. If our opinions on the basic financial statements are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

Nonattest Services

Below is the documentation of the nonattest services we plan on providing during this engagement:

Preparation of the basic financial statements and related schedules and disclosures; and

Preparation of the federal and state not-for-profit tax returns

We will not assume management responsibilities on behalf of the Organization. However, we will provide advice and recommendations to assist management of the Organization in performing its responsibilities.

With respect to any nonattest services we perform, the Organization's management is responsible for (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed; and (e) establishing and maintaining internal controls, including monitoring ongoing activities.

Our responsibilities and limitations of the engagement are as follows:

- We will perform the services in accordance with applicable professional standards.
- This engagement is limited to the services previously outlined. Our firm, in its sole professional judgment, reserves the right to refuse to do any procedure or take any action that could be construed as making management decisions or assuming management responsibilities. Our firm will advise the Organization with regard to tax positions taken in the preparation of the tax return, but the Organization must make all decisions with regard to those matters.



Audit Engagement Letter (continued)

Fees and Timing

Kendra A. Dockham, CPA is the engagement partner for the audit services specified in this letter. Her responsibilities include supervising Smith Marion & Co.'s services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Our fees are based on the amount of time required at various levels of responsibility, plus actual out-of-pocket expenses. We estimate that our fee for the audit will be as follows:

| | |
|--|----------|
| Audit | \$9,020 |
| Basic financial statements, related schedules, and disclosures preparation | 1,000 |
| Preparation and submission of the Special District Financial Transactions Report to the California State Controller's Office | 800 |
| Total Fees | \$10,820 |

We will notify you immediately of any circumstances we encounter that could significantly affect this initial fee estimate. Whenever possible, we will attempt to use the Organization's personnel to assist in the preparation of schedules and analyses of accounts. This effort could substantially reduce our time requirements and facilitate the timely conclusion of the audit.

Our fee is based on the anticipated cooperation from your personnel and the assumption that the accounting records are in satisfactory condition for the audit. We will schedule the engagement based in part on deadlines, working conditions, and the availability of your key personnel. We will plan the engagement based on the assumption that your personnel will cooperate and provide assistance by performing tasks such as preparing requested schedules, retrieving supporting documents, and preparing confirmations. We anticipate that when the draft report is received that management will be diligent in their review of the document and submit revisions once the review is complete. If, for whatever reason, your personnel are unavailable to provide the necessary assistance in a timely manner or more than one revision is made to the documents submitted to you for review, it may substantially increase the work we have to do to complete the engagement within the established deadlines, resulting in an increase in fees over our original fee estimate. Items that would cause additional time and an increase in fees would include, but not limited to, prior period audit adjustments not being posted and changes to the report after finalization. If we encounter unexpected circumstances, we will bring them to your attention immediately, to avoid any delays in completing the audit.

We request a retainer of 10% to be paid prior to the start of the audit. The retainer will be applied to the final invoice. We will notify you immediately of any circumstances we encounter that could significantly affect this initial fee estimate. **We require that a copy of the final trial balance (i.e., a trial balance ready to audit) be delivered to us at least 10 business days prior to the start of the audit,** otherwise we may reschedule.

Invoices will be payable upon presentation and will be submitted monthly during the course of the engagement. Any discrepancy regarding a billing must be communicated within 10 days from the date received; otherwise, it shall be considered correct and payable. Billings become delinquent if not paid within



Audit Engagement Letter *(continued)*

60 days of the invoice date. Past due accounts or invoices will incur a late payment penalty, assessed at the rate of 1.5% (18% annually) of the delinquent account balance each month, not to exceed maximum as permitted by law. Payments received on account will first be credited against any delinquency charges and then against the invoice balance. If billings are past due in excess of 60 days, we will stop work until your account is brought current or withdraw from the engagement.

In an action or proceeding to enforce any provision of this agreement, to collect unpaid fees or secure a judgment for nonpayment of fees, the prevailing party will be awarded reasonable attorneys' fees and costs incurred in that action or proceeding or in efforts to negotiate the matter. If this matter is referred to a collection agency, we shall be entitled to recover reasonable collection agency fees incurred in the matter.

It is our desire to make sure that our clients clearly understand the amount and manner in which we bill for our services. If you have any questions on our fees or billing policies, feel free to contact us.

Other Matters

We understand that your employees will prepare all confirmations we request and will locate any documents or support for any other transactions we select for testing.

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

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

Regarding the electronic dissemination of audited financial statements, including financial statements published electronically on your Internet website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Professional standards prohibit us from being the sole host and/or the sole storage for your financial and non-financial data. As such, it is your responsibility to maintain your original data and records and we cannot be responsible to maintain such original information. By signing this engagement letter, you affirm that you have all the data and records required to make your books and records complete.

The audit documentation for this engagement is the property of Smith Marion & Co. and constitutes confidential information. However, we may be requested to make certain audit documentation available to state and federal agencies and the U.S. Government Accountability Office pursuant to authority given to it by law or regulation, or to peer reviewers. If requested, access to such audit documentation will be provided under the supervision of Smith Marion & Co.'s personnel. Furthermore, upon request, we may provide copies of selected audit documentation to these agencies and regulators. The regulators and agencies may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies.

During the course of the audit, we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.



Audit Engagement Letter *(continued)*

Further, we will be available during the year to consult with you on financial management and accounting matters of a routine nature.

We agree to retain our audit documentation or work papers for a period of at least seven years from the date of our report.

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

At the conclusion of our audit engagement, we will communicate *to those charged with governance* the following significant findings from the audit:

- Our view about the qualitative aspects of the entity's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

We appreciate the opportunity to be your financial statement auditors and look forward to working with you and your staff.

Respectfully,

Kendra A. Dockham

Kendra A. Dockham, CPA, Principal
Smith Marion & Co.,
1940 Orange Tree Lane Suite 100
Redlands, CA 92374



Audit Engagement Letter *(continued)*

RESPONSE:

This letter correctly sets forth our understanding.

Acknowledged and agreed on behalf of Morongo Valley Community Services District by:

Name: _____

Title: _____

Date: _____