



Craig R. Fechter, CPA, MST
(1976 - 2022)

June 13, 2023

VIA SAFESEND

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Conrad Colbrandt
Board of Directors
Redbud Health Care District
15090-5120 Lakeshore Drive, Suites C & D
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We are pleased to confirm our understanding of the services we are to provide for Redbud Health Care District (the District) for the year ended June 30, 2023.

Audit Scope and Objectives

We will audit the financial statements of Redbud Health Care District, which comprise the statement of financial position as of June 30, 2023, the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the disclosures (collectively, the “financial statements”).

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 issue an auditor’s report that includes our opinion about whether your financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment of a reasonable user made based on the financial statements.

The objectives also include reporting on internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.

Auditor’s Responsibilities for the Audit of the Financial Statements

We will conduct our audit in accordance with GAAS and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion. As part of an audit in accordance with GAAS and *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit.

We will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management. We will also evaluate the overall presentation of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District. Because the determination of waste and abuse is subjective, *Government Auditing Standards* do not expect auditors to perform specific procedures to detect waste or abuse in financial audits nor do they expect auditors to provide reasonable assurance of detecting waste or abuse.

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

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

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

We have identified the following significant risk(s) of material misstatement as part of our audit planning:

According to GAAS, significant risks include management override of controls, and GAAS presumes that revenue recognition is a significant risk. Accordingly, we have considered these as significant risks. In addition, failing to record transactions on the accrual basis of accounting is a significant risk.

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

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

Audit Procedures—Internal Control

We will obtain an understanding of the District and its environment, including the system of internal control, sufficient to identify and assess the risks of material misstatement of the financial statements, whether due to error or fraud, and to design and perform audit procedures responsive to those risks and obtain evidence that is sufficient and appropriate to provide a basis for our opinion. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control.

Audit Procedures—Internal Control – continued

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Accordingly, we will express no such opinion. However, during the audit, we will communicate to you and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the District's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Other Services

We will assist in preparing the financial statements and related notes of the District in conformity with accounting principles generally accepted in the United States of America based on information provided by you. These services do constitute an audit under *Government Auditing Standards* and such services will be conducted in accordance with *Government Auditing Standards*. The other services are limited to the financial statement services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

You agree to assume all management responsibilities for the financial statements, related notes, and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter the services provided and our assistance with the preparation of the financial statements and related notes and that you have evaluated the adequacy of our services and have reviewed and approved the results of the services, the financial statements, and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to oversee the nonaudit services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Responsibilities of Management for the Financial Statements

Our audit will be conducted on the basis that you acknowledge and understand your responsibility for designing, implementing, establishing, and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met; following laws and regulations; and ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles, for the preparation and fair presentation of the financial statements and all accompanying information in conformity with accounting principles generally accepted in the United States of America, and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

You are also responsible for making drafts of financial statements, all financial records, and related information available to us and for the accuracy and completeness of that information (including information from outside of the general and subsidiary ledgers). You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, identification of all related parties and all related-party relationships and transactions, and other matters; (2) additional information that we may request for the purpose of the audit; and (3) unrestricted access to persons within the District from whom we determine it necessary to obtain audit evidence.

At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by GAAS and *Government Auditing Standards*.

Your responsibilities include 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 latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the District involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the District received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the District complies with applicable laws, regulations, contracts, agreements, and grants and for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that we report.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Scope and Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other engagements or studies. The District is also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions for the report, and for the timing and format for providing that information.

confidentiality of your username and password; (2) not allowing another person to use your username or password; (3) any charges or damages that may be incurred as a result of your neglect to maintain the strict confidentiality of your username and password; and (4) promptly informing the Firm in writing of any need to deactivate a username due to security concerns or otherwise. The Firm is not liable for any harm related to the misuse or theft of usernames or passwords, disclosure of usernames or passwords, or your authorization to allow another person or entity to access and use the Firm's Client Portal using your username or password. You shall immediately notify the Firm of any unauthorized use of your username or password and any breach of confidentiality. Until the Firm receives this notification from you, you will be held liable for any harm ensuing from the use of your username on the Firm's Client Portal.

Termination of Logon Account. Client agrees to notify the Firm via email at support@fechtercpa.com in writing when an individual logon account is to be terminated. The Firm will make every effort to confirm and terminate access within 3 business days. However, Client cannot be assured that access has been terminated until the requester receives an email confirmation of termination.

No Unlawful or Prohibited Use. As a condition of your use of the Client Portal website, you warrant to the Firm that you or your approved users will not use the Firm's Client Portal website for any purpose that is unlawful or prohibited by these terms, conditions, and notices. You may not use the Firm's Client Portal website in any manner that could damage, disable, overburden, or impair the Firm's website or interfere with any other party's use of the Client Portal website. You may not obtain or attempt to obtain any materials or information through any means not intentionally made available or provided for through the Client Portal website.

Information Disclosure. The Firm reserves the right at all times to disclose any information as necessary to satisfy any applicable law, regulation, legal process, or governmental request, or to edit, refuse to post, or to remove any information or materials, in whole or in part, in the Firm's sole discretion.

Client's Responsibility. You must at your own cost (a) provide for your own access to the Internet and pay any services fees, connection charges, and online services usage associated with such access and (b) provide all equipment necessary for you to make such connection to the Client Portal, including a computer and modem.

Dispute Resolution. The parties agree that any dispute between Client and the Firm relating to this Agreement, or the breach of it, shall, if negotiations and other discussions fail, be first submitted to mediation in accordance with the applicable rules for resolving professional accounting and related services disputes of the America Arbitration Association. If the parties are unable to resolve the dispute through mediation within 60 days from the date notice is first given from one party to the other as to the existence of such a dispute and the demand to mediate, then they may proceed to resolve the matter by arbitration if this agreement provides that the particular dispute is subject to arbitration, or by whatever other lawful means are available to them if this agreement does not provide for arbitration of the particular dispute. Costs of any mediation proceeding shall be shared equally by all parties.

WARRANTIES. THE FIRM MAKES NO WARRANTY, EXPRESS OR IMPLIED, REGARDING THE EFFICACY OF THE SECURITY OF THE CLIENT PORTAL. THE CONTENT AND SERVICES ARE PROVIDED ON AN "AS IS" BASIS AND THE FIRM SPECIFICALLY DISCLAIMS ANY EXPRESS OR IMPLIED WARRANTIES, INCLUDING, WITHOUT LIMITATION, WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE, WARRANTIES OF MERCHANTABILITY, OR WARRANTIES AGAINST INFRINGEMENT. THE FIRM, ITS AFFILIATES, EMPLOYEES, AND AGENTS SHALL NOT BE LIABLE FOR ANY DAMAGES OR LOSSES, INCLUDING, WITHOUT LIMITATION, INDIRECT,

Engagement Administration, Fees, and Other

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

You will also ensure that your accounting records are closed at June 30, 2023, prior to us beginning fieldwork. Our definition of closed accounting records are as follows:

- Cash balance amounts reported on the trial balance are reconciled to a cash reconciliation detail report and the Register Balance on that reconciliation report matches the trial balance.
- Accounts receivable amount reported on the trial balance is reconciled to an aged accounts receivable detail report with a total that matches the trial balance.
- Fixed asset balances are reconciled to the total costs and accumulated depreciation reported in a depreciation schedule. All assets that exceed your capitalization policy need to be included in the depreciation schedule (and anything below that amount SHOULD NOT be on the depreciation schedule). For any real and/or personal property (i.e., land, equipment, or vehicles) purchased or sold, the depreciation schedule should reflect those additions or deletions. If we have to clean up the depreciation schedule, this will result in a charge of \$250 per hour.
- Accounts Payable amount reported on the trial balance is reconciled to an aged accounts payable detail report.
- Accrued payroll balances are calculated and reconciled to the balance reported in the trial balance.

If we need to record any adjustments to accounts receivable, accounts payable, etc., to convert you from cash basis to accrual basis of accounting, this will result in a charge of \$500 per accrual. In addition, failure to provide closed accounting records, as explained above, will result in additional fee of \$500 per non-closed account balance. In order to avoid these additional fees, you can send us the journal entries and we will record them for you. Additionally, if any changes are made to the general ledger AFTER you have provided your year-end general ledger to us, please make sure to send us those journal entries as well, so that we have the same set of books that you have.

We will outline our request for information in our “Client Participation Schedule” (CPS). We request that you notify us in a timely manner should you need guidance on how to assemble the information requested, or if you will not be able to meet the Due Dates that are listed on the CPS.

We will provide copies of our reports to the District; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Fechter & Company, Certified Public Accountants and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to the applicable Regulator or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Fechter & Company, Certified Public Accountants personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release date or for any additional period requested by the applicable Regulator. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

Scott German, CPA is the engagement partner and is responsible for signing the reports or authorizing another individual to sign them. Lamar E. Edwards supervising the engagement. We expect to begin our audit in October 2023.

We estimate that our fees for the audit will be \$11,000 and an additional \$1,500 for the State Controller's Report. You will also be billed for travel and other out-of-pocket costs such as report production, word processing, postage, etc. Expenses will be billed at actual amounts incurred and are estimated to be approximately \$800.

The audit fees will be due as follows:

Due with this engagement letter	\$ 2,750
Following completion of field work	7,150
State controller's report fee upon completion of field work	1,500
Upon presentation of the final report	<u>1,100</u>
Total fees	\$ <u>12,500</u>

The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. If significant additional time is necessary, we will keep you informed of any problems we encounter and our fees will be adjusted accordingly. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation.

Reporting

We will issue a written report upon completion of our audit of the District's financial statements. Our report will be addressed to Board of Directors of the District. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinion, add a separate section, or add an emphasis-of-matter or other-matter paragraph to our auditor's report, or if necessary, withdraw from this engagement.

If our opinion is other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or issue reports, or we may withdraw from this engagement.

We will also provide a report (which does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and on compliance and other matters will state that (1) the purpose of the report is solely to describe the scope of testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control on compliance and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The report will also state that the report is not suitable for any other purpose. If during our audit we become aware that the District is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted

auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

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

The Firm is licensed by the California Board of Accountancy and we will notify you in writing of any changes to that status.

Very truly yours,


Fechter & Company
Certified Public Accountants

RESPONSE:

This letter correctly sets forth the understanding of Redbud Health Care District.

Management signature: _____

Title: _____

Date: _____

Governance signature: _____

Title: _____

Date: _____