

# *Guzman & Gray*

Certified Public Accountants

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4510 East Pacific Coast Highway, Suite 270  
Long Beach, California 90804

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June 1, 2020

Mr. Robert Dewit, General Manager, CEO  
Forty-Niner Shops, Inc.  
6049 East 7<sup>th</sup> Street  
Long Beach, CA 90840

Dear Mr. Dewit:

We are pleased to confirm our understanding of the services we are to provide for the Forty-Niner Shops, Inc. for the year ended June 30, 2020.

We will audit the financial statements of Forty-Niner Shops, Inc., which comprise the statements of financial position as of June 30, 2020, the related statements of activities, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements. Also, the following supplementary information accompanying the financial statements will be subjected to the auditing procedures applied in our 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, in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion on it in relation to the financial statements as a whole in a report combined with our auditor's report on the financial statements:

- 1) Schedule of Enterprise Activities
- 2) Schedule of Net Position
- 3) Schedule of Revenues, Expenses and Changes in Net Position
- 4) Supplemental information schedules for Auxiliary Organizations required by the California State University Office of the Chancellor

## **Audit Objective**

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion. We will issue a written report upon completion of our audit of Forty-Niner Shops, Inc.'s financial statements. Our report will be addressed to board of directors of Forty-Niner Shops, Inc. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph. If our opinion is other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or withdraw from this engagement.

## **Audit Procedures**

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 the Organization's attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. 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 Organization or to acts by management or employees acting on behalf of the Organization.

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 a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted 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, any 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.

Our audit will include obtaining an understanding of the Organization and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. Accordingly, we will express no such opinion. However, during the audit, we will communicate to you and those charged with governance internal control related matters that are required to be communicated under professional standards.

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.

### **Other Services**

We will prepare the Organization's annual federal and state of California corporate tax-exempt information returns (Forms 990, 199 and RRF-1) and annual Federal and state of California Corporate business income tax returns (Forms 990T and 109) for the year ended June 30, 2020 based on information provided by you. We will also assist you in preparing the financial statements, the accompanying supplementary information and supplementary schedules for Auxiliary Organizations required by the California State University Office of the Chancellor, and related notes of the Organization in conformity with U.S. generally accepted accounting principles and in conformity with the Audit Guide for Auxiliary Organizations issued by the California State University Office of the Chancellor based on information provided by you.

We will perform the services in accordance with applicable professional standards, including the Statements on Standards for Tax Services issued by the American Institute of Certified Public Accountants. The other services are limited to the financial statement and tax 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. We will advise management with regard to tax positions taken in the preparation of the tax return, but management must make all decisions with regard to those matters.

### **Management Responsibilities**

You are responsible for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including monitoring ongoing activities; for the selection and application of accounting principles; and for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles. You are also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. 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, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the organization from whom we determine it necessary to obtain audit evidence.

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 Organization 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 Organization received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring the Organization complies with applicable laws and regulations.

You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon.

You agree to assume all management responsibilities for the tax services, financial statement preparation services, and any other nonattest services we provide; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

#### **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.

Mark Gray is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it. We expect to begin our audit on approximately June 20, 2020 and we expect to issue drafts of our report about September 15, 2020.

We estimate our fees to be as follows:

	<u>Not to Exceed</u>
Perform annual audit and prepare financial Statements and management letter (including thirty copies of reports and a pdf copy) (prior year was \$39,950)	\$40,750
Prepare annual Federal and California Corporate tax-exempt information returns (Forms 990, 199 and RRF-1) (including a taxpayer's copy and a pdf copy of the returns) (prior year was \$3,400)	\$3,450
Prepare annual Federal and California Corporate business income tax returns (Forms 990T and 109) (including a taxpayer's copy and a pdf copy of the returns) (same as prior year)	\$1,650

Our standard hourly rates to perform services are as follows:

Partner	\$260
Manager and Supervisors	\$140- \$195
Senior and Staff	\$ 80- \$125
Clerical	\$ 50- \$ 67

Your accounting department will assist us to the extent practicable in the completion of our engagement. They will provide us with detailed trial balances and supporting schedules as we deem necessary. A list of such schedules will be furnished shortly after the commencement of our engagement. Any additional accounting assistance or consulting that you require and which may be required to complete the audit process may be additionally billed at our hourly rates.

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

Our estimated fees are in contemplation of full cooperation from the staff of your company and are predicated on the assumption that the operating procedures and record-keeping of your company will be found to be in a generally satisfactory condition.

The Corporation's general ledger will be properly closed on an accrual basis and all requested client prepared schedules will be received by us on dates agreed to in advance. If this is not found to be the case we will notify you and may request an additional retainer. In addition, the cost of typing and mailing confirmations will be borne by your company.

It is our policy to keep records related to this engagement for seven years. However, Guzman & Gray does not keep any original client records, so we will return those to you at the completion of the services rendered under this engagement. When records are returned to you, it is your responsibility to retain and protect your records for possible future use, including potential examination by any government or regulatory agencies. By your signature below, you acknowledge and agree that upon the expiration of the seven year period Guzman & Gray shall be free to destroy our records related to this engagement.

You may request that we perform additional services not contemplated by this engagement letter. If this occurs, we will communicate with you regarding the scope of the additional services and the estimated fee. We also may issue a separate engagement letter covering the additional services. In the absence of any other written communication from us documenting such additional services, our services will continue to be governed by the terms of this engagement letter.

In addition, you further agree that in the event our firm or any of its employees or agents is called as a witness or requested to provide any information whether oral, written or electronic in any judicial, quasi-judicial, or administrative hearing or trial regarding information or communications that you have provided to this firm, or any documents and workpapers prepared by Guzman & Gray in accordance with the terms of this agreement, you agree to pay any and all reasonable expenses including fees and costs for our time at the rates specified in our engagement letter, as well as any legal or other fees that we incur as a result of such appearance or production of documents.

The above is predicated on the assumption that the scope required to perform the engagement will not significantly change for reasons beyond our control. Examples of such changes may be changes in Chancellor's Audit Guidelines, professional standards, or the reporting entity.

It's our understanding the Forty-Niner Shops has a deadline of about September 18, 2020 for submission of the first draft of its audited financial statements. Our Management letter is due for submission to the Office of the Chancellor by October 19, 2020. Due to the Corona Virus impact the due dates could be extended up to about one month. Upon completion of our engagement, we will distribute the reports to the Chief Administrative Officer of the Forty-Niner Shops, Inc.

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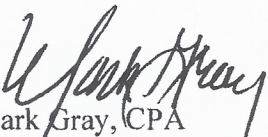
We are proud to continue servicing the Forty-Niner Shops, Inc. as professional accountants and can assure you that our firm and every member of our engagement team will continue to strive to provide the organization with services of the highest caliber.

We have attached a copy of our most recent peer review report for your information.

If this letter correctly expresses our understanding, we would appreciate your signing the enclosed copy where indicated and returning it to us. We shall be pleased to discuss this letter with you at any time.

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

Very truly yours,

  
Mark Gray, CPA  
*Guzman & Gray CPAs*

Cc: Tom Collier

ACCEPTED BY: 

DATE: 6/03/20

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**REPORT ON THE FIRM'S SYSTEM OF QUALITY CONTROL**

October 25, 2018

Guzman & Gray, CPAs  
Certified Public Accountants  
and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Guzman & Gray, CPAs (the firm) in effect for the year ended March 31, 2018. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

**Firm's Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

**Peer Reviewer's Responsibility**

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

**Required Selections and Considerations**

Engagements selected for review included engagements performed under *Government Auditing Standards*, including a compliance audit under the Single Audit Act. As part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our peer review procedures.

**Opinion**

In our opinion, the system of quality control for the accounting and auditing practice of Guzman & Gray, CPAs in effect for the year ended March 31, 2018, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiencies*, or *fail*. Guzman & Gray, CPAs has received a peer review rating of *pass*.

