



LAKE SHASTINA COMMUNITY SERVICES DISTRICT

RESOLUTION 4-10

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE LAKE SHASTINA COMMUNITY SERVICES DISTRICT APPROVING CERTIFIED PUBLIC ACCOUNTANT'S AUDIT ENGAGEMENT LETTER FOR THE YEAR ENDED JUNE 30, 2010.

WHEREAS, the District is required to have an annual audit performed in accordance with Government Auditing Standards; and

WHEREAS, the Board of Directors has reviewed copies of the audit engagement letter from Aiello, Goodrich & Teuscher (AGT) regarding audits for the year ended June 30, 2010; and

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors hereby authorizes the President to sign AGT audit engagement letter, dated May 12, 2010, for the year ended June 30, 2010.

I hereby certify that the forgoing is a full, true and correct copy of Resolution 4-10 duly passed and adopted by the Board of Directors of the Lake Shastina Community Services District, Siskiyou County, California, at a meeting thereof duly held on the 19th day of May, 2010, by the following vote:

AYES: Directors Cupp, Dean, Pavlic, Roths and Wetter
NOES: None
ABSENT: None

Carol Cupp, President (with signature)

ATTEST:

John McCarthy, Secretary (with signature)



May 12, 2010

Board of Directors
Lake Shastina Community Services District
16320 Everhart Drive
Weed, CA 96094

We are pleased to confirm our understanding of the services we are to provide Lake Shastina Community Services District for the year ended June 30, 2010. We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the entity's basic financial statements, of Lake Shastina Community Services District as of and for the year ended June 30, 2010. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to accompany Lake Shastina Community Services District's basic financial statements. As part of our engagement, we will apply certain limited procedures to Lake Shastina Community Services District's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's Discussion and Analysis (if presented)
2. Budgetary Comparison Schedules

Audit Objectives

The objective of our audits is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. Our audits will be conducted in accordance with U.S. generally accepted auditing standards 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 the accounting records of Lake Shastina Community Services District and other procedures we consider necessary to enable us to express such opinions. If our opinions on the financial statements are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audits or are unable to form or have not formed opinions, we may decline to express opinions or to issue reports as a result of this engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants, noncompliance with which could have a material effect on the financial statements as required by Government Auditing Standards. The reports on internal control and compliance will each include a statement that the report is intended solely for the information and use of the audit committee, management, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audits, we will assist with preparation of your financial statements and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and that you have reviewed and approved the financial statements and the related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal control and for compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for ensuring that management and financial information is reliable and properly recorded. Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the 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, or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts 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, or illegal acts affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws and regulations and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

As part of the audits, we will prepare a draft of your financial statements and related notes. In accordance with Government Auditing Standards, you will be required to review and approve those financial statements prior to their issuance and have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements. Further, you are required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits or other studies related to the objectives discussed in the Audit 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 studies. You are 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.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audits will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audits to obtain reasonable rather than absolute 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 entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance 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. 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 you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you 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 later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audits, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Controls

Our audits will include obtaining an understanding of the entity 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. 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*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audits, we will communicate to management 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 Lake Shastina Community Services District's compliance with



provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audits 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*.

Engagement Administration, Fees, and Other

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

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 Aiello, Goodrich & Teuscher and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to certain regulators or their 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 Aiello, Goodrich & Teuscher 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 five years after the report release date or for any additional period requested by regulators, and a minimum of seven years as required by California Business and Professional Code. 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.

Steven Drageset is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

We estimate that our fees for these services will be \$12,000, plus travel costs (if any), for the audits of your financial statements for the year ended June 30, 2010. We will also prepare the District's annual State Controller's Office Report. We estimate our fee for this service will be \$490.

Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 30 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audits. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2009 peer review and letter of comment accompanies this letter.



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We appreciate the opportunity to be of service to Lake Shastina Community Services District 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,

Aiello, Goodrich & Teuscher
Aiello, Goodrich & Teuscher
An Accountancy Corporation

RESPONSE:

This letter correctly sets forth the understanding of Lake Shastina Community Services District.

By: *Carol J. Lynn*
Title: *LSCSD President*
Date: *5/20/10*





David E. Vaughn CPA

(209) 957-8806, fax (209) 957-9589

2495 W. March Lane, Suite 75, Stockton, Ca. 95207-8207

System Review Report

September 2, 2009

To the Owners,
Aiello, Goodrich & Teuscher, A.C.
and the Peer Review Committee of the California Society of CPAs

I have reviewed the system of quality control for the accounting and auditing practice of Aiello, Goodrich & Teuscher, A.C. (the firm) in effect for the year ended February 28, 2009. My review was conducted in accordance with Standards for Performing and Reporting on Peer reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of performing and reporting with professional standards in all material respects. My responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on my review. The nature, objectives, scope, limitations of, and procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included an engagement performed under *Government Auditing Standards*.

In my opinion, the system of quality control for the accounting and auditing practice of Aiello, Goodrich & Teuscher, A.C. in effect for the year ended February 28, 2009, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency* or *fail*. Aiello, Goodrich & Teuscher, A.C. has received a peer review rating of *pass*.

A handwritten signature in black ink that reads 'David E. Vaughn' in a cursive script.

David E. Vaughn, CPA

Motion by Dir. Wetter second by Dir. Roths to approve Resolution 3-10 authorizing the District General Manager to enter into a contract with SHN Consulting Engineers & Geologists, Inc. per Scope of Work and Cost Estimate dated May 4, 2010, not-to-exceed \$16,100.

Ayes: Directors Cupp, Dean, Pavlic, Roths and Wetter
Noes: None
Absent: None

7. Public Hearing for consideration of approval of FY 2010/2011 Budget (Resolution 2-10) (Pres. Cupp): GM McCarthy stated that the proposed budget was prepared by the Budget Committee and reviewed by the Board at their April meeting. Pres. Cupp opened the Public Hearing at 5:56 p.m. There were no public comments. Pres. Cupp closed the Public Hearing at 5:56 p.m.

Motion by Dir. Roths second by Dir. Dean to approve Resolution 2-10 approving FY 2010/2011 Budget, as presented.

Ayes: Directors Cupp, Dean, Pavlic, Roths and Wetter
Noes: None
Absent: None

8. Aiello, Goodrich & Teuscher (AGT) CPA Engagement Letter: audit for year ended June 30, 2010 (Resolution 4-10) (GM McCarthy)

Motion by Dir. Wetter second by Dir. Roths to approve Resolution 4-10 authorizing the President to sign AGT Engagement Letter regarding audit for year ended June 30, 2010.

Ayes: Directors Cupp, Dean, Pavlic, Roths and Wetter
Noes: None
Absent: None

9. Future Planning Committee Update (Denny Daleiden): The Board and Denny Daleiden discussed the Future Planning Committee's scope and request for funding. Pres. Cupp stated the District was responsible for Fire, Police, Sewer and Water; that funding a private committee, not governed by the District, with a scope beyond the District's latent powers, may not be allowed or in the best interest of the District. Pres. Cupp directed GM McCarthy to research this issue. The Board recommended that the Committee concentrate on specifics to the Community such as immediately needed facilities.

BOARD MEMBER COMMENTS: (Dir. Wetter – Jim Cook is willing to give a workshop regarding grant funding; the Board agreed to hold a special meeting for the workshop.)

ADJOURNMENT:

Motion by Dir. Dean second by Dir. Wetter to adjourn meeting at 6:42 p.m. to Regular Meeting on June 16, 2010 at 5:00 p.m.

Ayes: Directors Cupp, Dean, Pavlic, Roths and Wetter
Noes: None
Absent: None

Approval Date: _____

Carol Cupp, President

ATTEST:

John McCarthy, District Secretary