



**LAKE SHASTINA COMMUNITY SERVICES DISTRICT**

---

**RESOLUTION 6-11**

**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, 2011.**

**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 proposals submitted regarding audits for the year ended June 30, 2011; and

**NOW, THEREFORE, BE IT RESOLVED** that the Board of Directors hereby authorizes the President to sign one-year audit engagement letter/contract with D.R. Watts Accountancy Corporation, for the year ended June 30, 2011.

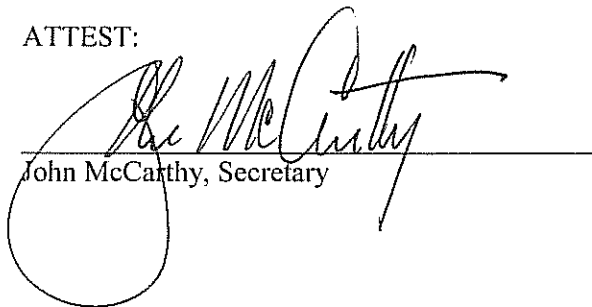
\*\*\*\*\*

I hereby certify that the forgoing is a full, true and correct copy of Resolution 6-11 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 18th day of May, 2011, by the following vote:

AYES: Directors Cupp, Moller, Murphy, Roths and Wetter  
NOES: None  
ABSENT: None

  
Tom Wetter, President

ATTEST:

  
John McCarthy, Secretary

4. Public Hearing and consideration of approval of FY 2011/2012 Operating Budget: Pres. Wetter opened the Public Hearing at 5:25 p.m. GM McCarthy gave a summary of the proposed budget. There were no public comments. Pres. Wetter closed the Public Hearing at 5:43 p.m.

**Motion by Dir. Moller second by Dir. Cupp to adopt Resolution, 5-11 approving FY 2011/2012 Operating Budget, as presented.**

**Ayes: Directors Cupp, Moller, Roths and Wetter**  
**Noes: None**  
**Absent: None**

**DISCUSSION / ACTION ITEMS:**

5. Consideration of appointment to fill vacant Board Member seat: Pres. Wetter stated that notices for the Director vacancy were posted and that he was aware of one candidate who had already been verified by the County Clerk as an eligible candidate. Gayle Wetter nominated Errol Murphy to fill the position. No other names were presented to the Board. Dir. Moller stated that she was unaware that notices had been posted and that the Board would be ready to fill the position at this meeting.

**Motion by Dir. Roths second by Dir. Cupp to appoint Errol Murphy to fill Board Member vacancy – term through December 7, 2012.**

**Ayes: Directors Cupp, Roths and Wetter**  
**Noes: Director Moller**  
**Absent: None**

GM McCarthy administered the Oath of Office for Errol Murphy. Dir. Murphy was seated.

6. Fire Department: monthly report: Interim FC Paulus updated the Board on Fire Department activities.  
 7. Police Department: monthly report: PC Alves updated the Board on Police Department activities.  
 8. Wastewater Ponds: update: GM McCarthy reported that bid documents are being worked on for the new sewer ponds. The District is waiting for the Water Board's response regarding the liner design for the new ponds.  
 9. LSPOA request for sign placement on CSD property: The Board reviewed the sign design provided by the LSPOA. Pres. Wetter stated that the LSPOA agreed they would be responsible for the sign, including maintenance.

**Motion by Dir. Moller second by Dir. Murphy to approve LSPOA's request for sign placement on CSD property.**

**Ayes: Directors Moller, Murphy and Wetter**  
**Noes: Directors Cupp and Roths**  
**Absent: None**

10. Review of proposals, CPA audit quotes were presented to the Board. The Board and staff discussed the options for the FY 2010/2011 audit.

**Motion by Dir. Moller second by Dir. Cupp to adopt Resolution 6-11, approving that the District enter into a one year contract for audit services with D.R. Watts Accountancy Corporation for the June 30, 2011 audit of the District's financials.**

**Ayes: Directors Cupp, Moller, Murphy, Roths and Wetter**  
**Noes: None**  
**Absent: None**

11. Administration Meeting Room: discussion regarding policy and rental fee: The Board directed staff to develop a draft policy, for Board consideration, regarding the use of the Administration Meeting Room; policy to include rental fees.  
 12. Water Safety Program: request for reimbursement of signs: Pres. Wetter asked that the Board consider paying the printing costs of brochures that will be distributed at the Sheriff Department Water Safety Program on May 28, 2011 at the Lake Shastina public campground.

**Motion by Dir. Cupp second by Dir. Roths to approve paying for the printing costs for the Water Safety Program brochure; up to \$125 from the General Fund.**

**Ayes: Directors Cupp, Moller, Murphy, Roths and Wetter**  
**Noes: None**  
**Absent: None**

# D.R. Watts Accountancy Corporation

1103 Butte House Road, Suite F  
Yuba City, CA 95991  
Phone (530) 674-8809 / Fax (530) 674-8868  
drwattscpa@aol.com

Diane R. Watts, CPA

Lewis Ridgeway, MSc, CPA, FCA

May 27, 2011

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

Dear Sir or Ma'am,

We are pleased to set out below our understanding of the services we are to provide for the Lake Shastina Community Services District (the District). We will audit the Statement of Net Assets of the District as of June 30, 2011 with the related Statement of Activities, the Fund Financial Statements, the Statement of Cash Flows, the Balance Sheet, Statement of Revenues, Expenditures and Changes in Fund Balance and the required supplementary information for the year ended June 30, 2011. We will also prepare the California State Controller's Report for the year ended June 30, 2011.

## **Audit Objective**

The objective of our audit is the expression of an opinion 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 audit will be conducted in accordance with U.S. generally accepted auditing standards and will include tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion. If our opinion is other than unqualified, we will fully 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 to issue a report as a result of this engagement.

## **Management Responsibilities**

Management is responsible for establishing and maintaining effective internal controls. 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, and 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. You are also responsible for all management decisions and functions; for designating an individual with suitable skill, knowledge, and experience to oversee our financial statement preparation services and any other non-attest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for making all financial records and related information available to us. We understand that you will provide us with such information required for our audit and that you are responsible for the accuracy and completeness of that information. Management is responsible for 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 establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Lake Shastina Community Services District and the respective changes in financial position and where applicable, cash flows, in conformity with U.S. generally accepted accounting principles.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing me about all known or suspected fraud or illegal acts affecting the District 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 me of your knowledge of any allegations of fraud or suspected fraud or illegal acts affecting the District received in communications from employees, former employees, 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, or violations of contracts or grant agreements that we may report.

#### **Audit Procedures - General**

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. 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 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. As auditors, our responsibility 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 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 funding sources, creditors, and financial institutions. We will also 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 the audit, we will require certain written representations from you about the financial statements and related matters.

**Audit Procedures – Internal Controls**

In planning and performing our audit, we will consider the internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinion on Lake Shastina Community Services District’s financial statements.

An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, we will inform the governing body or audit committee of any matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the entity’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

**Audit Procedures – Compliance**

Identifying and ensuring that Lake Shastina Community Services District complies with laws, regulations, contracts, and agreements is the responsibility of management. 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 applicable laws and regulations and the provisions of contracts and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

**Audit Administration, Fees and Other**

We understand that your bookkeeper/secretary or member of the board will assist us in locating documents that may be required, and provide us with certain working paper schedules that will assist us in carrying out the audit.

We understand that your bookkeeper/secretary will provide us with the basic information required for the audit and that you are responsible for the accuracy and completeness of that information. We will advise you about appropriate accounting principles and their application, but the responsibility for the financial statements remains with you. This responsibility includes the maintenance of adequate records and related internal control structure, the selection and application of accounting principles, and the safeguarding of assets.

**Fees:**

<b>Audited financial statements, June 30, 2011 including SCO Financial Transactions Report</b>	<b><u>\$ 10,800.00</u></b>
<b>Estimated total audit fees:</b>	<b><u>\$ 10,800.00</u></b>

The above estimate is based on anticipated cooperation from your staff and the assumption that unexpected circumstances will not be encountered during the audit. If significant, additional time is necessary, we will discuss it with you and arrive at a new fee estimate before any additional costs are incurred.

Our invoices for these fees will be rendered each month as work progresses and are payable upon presentation. In accordance with our firm policies, work may be suspended if your account becomes 30 days or more overdue and will not be resumed until your account is paid in full. Interest will be assessed at the rate of 1% per month on balances over 30 days.

We appreciate this 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 me know. If you agree with the terms of the engagement as described in this letter, please sign the enclosed copy and return it to me at the above address.

Sincerely,

*Diane R. Watts*

Diane R. Watts, CPA  
D.R. Watts Accountancy Corporation

**RESPONSE:**

This letter correctly sets forth my understanding of the terms of the engagement.

Signature: *Diane R. Watts*

Title: *President*

Date: *6-1-2011*