

**Larry Sain, CPA**

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February 3, 2006

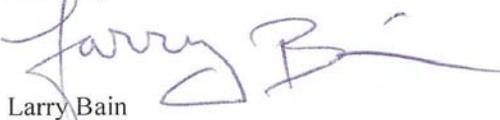
Charlie Martin  
General Manager  
Saddle Creek Community Services District

Dear Mr. Martin,

Enclosed is engagement letter for the December 31, 2005 audit. Please review the terms of the engagement and if acceptable to the District, sign one copy and mail back to my office. Once I receive the signed engagement letter I will contact you to schedule the audit. As of this date I will be available mid March to perform the audit. Also I will provide you with a listing of items that can be prepared in advance of the audit

This year's engagement will also include the preparation of your State Controller's report, the preparation of your fixed assets depreciation schedule and the reconciliation of the County activity to your general ledger. Please don't hesitate to contact me with any questions.

Sincerely

  
Larry Bain

*The Accounting Office Of:*

*Larry Bain, CPA*

February 3, 2006

Charlie Martin  
Saddle Creek Community Services District  
Copperopolis, CA 95228

Dear Mr. Cherniss:

We are pleased to confirm our understanding of the service we are to provide for the Saddle Creek Community Services District for the year ended December 31, 2005. We will audit the financial statements of the Saddle Creek Community Services District as of and for the year ended December 31, 2005. We understand that the financial statements will be presented in accordance with the financial reporting model described in GASB Statement No. 34. Also, the financial statements we submit to you will include the following additional information that will be subjected to the auditing procedures applied in our audit of the financial statements, required supplementary information under the new financial reporting model, such as managements discussion and analysis, the budgetary comparison schedules, and infrastructure information.

#### Audit Objective

The objective of our audit is the expression of an opinion as to whether your financial statements are fairly presented, in all material respects, in conformity with 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 financial statements taken as a whole. Our audit will be conducted in accordance with generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States, and will include tests of the accounting records and other procedures we consider necessary to enable us to express such an opinion. If our opinion on the financial statements 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.

We will also provide reports (that do not include opinions) on internal controls related to the financial statements and compliance with laws, regulations, and the provisions or grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*.

#### Management Responsibilities

Management is responsible for establishing and maintaining internal controls and for compliance with laws, regulations, contracts and agreements. 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 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 for that information. We will advise you about appropriate accounting principles and their application and will assist you in the preparation of your

Management Responsibilities (continued)

Financial statements, but the responsibility for the financial statements remain with you. That responsibility includes the establishment and maintenance of adequate records and effective internal control over financial reporting, the selection and application of accounting principles, and the safeguarding of assets.

Management is responsible for adjusting the financial statements to correct material misstatements and for 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.

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 rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. 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 a material misstatement may exist and not be detected by us.

In addition, an audit is not designed to detect immaterial errors, fraud, or other illegal acts that do not have a direct effect on the financial statements. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during 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, 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 audit, we will also require certain written representations from you about the financial statements and related matters.

Identifying and ensuring that the Saddle Creek Community Services District complies with laws, regulations, contracts, and agreements is the responsibility of management. As part of obtaining reasonable assurance whether the financial statements are free of material misstatement, we will perform tests of Saddle Creek 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 Procedures - Internal Control

In planning and performing our audits, 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 the Saddle Creek Community Services District financial statements.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. 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. (Tests of controls are required only if control risk is assessed below the maximum

Audit Procedures -Internal Control (continued)

level). 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.

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 Administration and Fees

We understand that your employees will assist us in the preparation of cash and all other confirmations we request and aid us in the location of invoices selected by us for testing.

The workpapers for this engagement are the property of the Accounting Office and constitute confidential information. However, we may be requested to make certain workpapers available to regulatory agencies pursuant to authority given to it by law or regulations. If requested, access to such workpapers will be provided under the supervision of the Accounting Office. Furthermore, upon request, we may provide photocopies of selected workpapers to the regulatory agency. The regulatory agency may intend, or decide; to distribute the photocopies or information contained therein to others, including other governmental agencies.

We expect to begin our audit after December 31 and after the District has closed its books.

Our fee for these services will be at our standard hourly rates except that we agree that our gross fee, including expenses, will not exceed \$6,000 per year. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed 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 fees are based on anticipated cooperation from your personnel 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 bill at our standard hourly rates of \$95 to \$125 per hour depending on experience level of staff assigned.

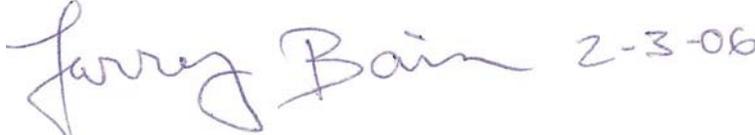
*The Accounting Office Of:*

*Larry Bain, CPA*

Agreement of Terms

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,

A handwritten signature in blue ink that reads "Larry Bain" followed by the date "2-3-06". The signature is written in a cursive style.

Larry Bain, CPA

This letter correctly sets forth the understanding of the District.

By:

Title:

Date:

4. *t*  
3905 Jennings Ct., W.  
Sacramento, CA 95691