

Exhibit B

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APPROACH, SCOPE AND TIMING OF THE AUDIT

Our extensive experience in auditing ensures that we will concentrate on those areas of highest risk and plan and coordinate our work with management. We will not waste your time and resources by auditing areas that have no material risk to the financial statements. We will perform an assessment of the internal controls for the purpose of determining the procedures necessary to perform our audit, and any recommended enhancements to internal controls that we note during our audit will be communicated to management.

Scope of Services

We understand that the LAFCO requires an audit of its basic financial statements for the fiscal years ended June 30, 2015 through 2017, with an option to extend our services to fiscal years ended June 30, 2018 and 2019, conducted in accordance with generally accepted auditing standards accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements will be prepared in conformity with GASB Statement No. 34. We will also need to evaluate the proper implementation of GASB Statement No. 68 by the LAFCO and whether the pension plan with PERS has been recorded on the LAFCO's books and disclosed appropriately.

We will issue a separate Management Letter that includes recommendations, if any, for improvements in internal control that are considered to be significant deficiencies or material weaknesses.

If the LAFCO receives and expends more federal awards than the single audit threshold, we will perform a single audit in accordance with OMB Circular A-133 of State, Local Governments and Non-profits Organizations.

We have assisted all of our clients that have postemployment benefits in implementing GASB Statement No. 45 and have attended the California Society's of CPA's annual governmental education class in 2014 where the Chief Actuary of CalPERS explained CalPERS' intended approach to provide the information necessary to help local governments implement GASB Statement No. 68 on pension plans. We have begun the process of educating our clients how to implement GASB Statement No. 68 and related GASB Statement No. 71 on transition contributions made to pension plans. We have the experience and expertise to assist the LAFCO in implementing these Statements.

Audit Approach

Our extensive experience in auditing ensures that we will concentrate on those areas of highest risk and plan and coordinate our work with management. We will not waste your time and resources by auditing areas that have no material risk to the financial statements. We will perform an assessment of the internal controls for the purpose of determining the procedures necessary to perform our audit, and any recommended enhancements to internal controls that we note during our audit will be communicated to management and LAFCO.

Our audit approach to this engagement is divided into three stages as follows:

Initial Planning: We believe that a smoothly-run audit is based upon the early identification and resolution of reporting and auditing issues. Due to the extensive knowledge gained through auditing governmental organizations, we will identify such issues in a timely manner and obtain a better understanding of your organization and the external and internal environments in which the LAFCO operates. We will examine significant contracts and agreements to determine the effect on the nature and extent of the auditing procedures. We will meet with your personnel to obtain an understanding of your internal control structure policies and procedures and to document the flow of information through the accounting system, including procedures performed by the County, and prepare walkthrough memos with the assistance of your staff.

Program Development: Our risk assessment and evaluation of internal controls will provide the basis for determining the nature, timing and extent of audit procedures for specific transactions and accounts. Our approach to gaining an understanding of internal control will be in accordance with Statement of Audit Standard (SAS) Nos. 104 through 111. Accordingly, we will focus on obtaining an understanding of the control environment, risk assessment, information and communication, and monitoring components. We will document the LAFCO's control environment and will perform a walkthrough of significant area to assess control risk for the purpose of planning our substantive tests. We will perform additional testing of internal controls as needed based on our risk assessment. An overall audit program is the end product of our initial planning. The primary purpose of this phase of our audit approach is to assess the likelihood of material error in the accounts and transactions and to determine the most cost effective and cost efficient mix of audit procedures. In developing the audit program, our aim will be to:

- Provide a complete audit program for all important financial statement amounts.
- Eliminate redundant audit procedures.
- Use audit procedures which accomplish more than one purpose.

Our audit approach is based on an analysis and understanding of the external and internal risk currently facing the organization we are auditing. Risk analysis enables us to design the most effective and efficient audit program, which evaluates and includes audit tests in relation to the size and probability of these risks. This approach provides us with a uniform method for developing and documenting the basis for our audit program. We will provide LAFCO staff with a list of documents, account analyses and other items we will need during the audit.

Program Execution: During this stage of our audit, we will perform the tests of transactions processed through the accounting system, direct tests of account balances and tests of compliance with laws, regulations and contracts. We plan to use either random or systematic sample selection methods to perform such tests. We will utilize analytical procedures in all areas of the audit, especially for receivables, revenues and expenses. We will perform all requested tasks as one integrated engagement and will schedule the timing of our field work so that there will be minimal disruption of the day-to-day operations. We will utilize computer software during the engagement for all workpaper preparation and for developing the trial balance used to prepare the financial statements. We will use the LAFCO's budget to determine the need for restrictions of fund balance as well as to perform analytical procedures for comparison to actual revenues and expenses.

Work Plan Timetable: The following work plan was developed with your deadlines in mind. The timing identified in the work plan is approximate. **Upon selection as your independent accountants, we will meet with you, and together we will determine a specific timetable which ensures minimal disruption of your employees and that the LAFCO's desired deadline for the delivery of our final reports is met.** As can be seen from the following work plan, the service team is composed in such a way that each member has adequate supervision and technical support.

Work Plan

Task	Timing	Estimated Hours			
		Partner	Supervisor	Staff	Total
Audit Planning:	July/August	5	5		10
Begin audit planning process					
Internal control/systems documentation and evaluation					
Risk Assessment					
Develop audit programs					
Prepare audit assistance package and confirmation letters					
Substantive Testing:	September/October	5	25	30	60
Cash and investments					
Revenue and receivables					
Payroll and related liabilities					
Expenses for goods and services and related liabilities					
Equity and other credits					
Reporting and Wrap-up:					
Preparation of the basic financial statements and other reports	December	5	10	10	25
Draft reports available for review	January 15				
Delivery of final reports	No later than January 31				
Total Audit Hours		<u>15</u>	<u>40</u>	<u>40</u>	<u>95</u>

Our audit will be planned so that delivery of all required reports will be accomplished in a timely manner. We believe that the staffing of the audit is sufficient to ensure the timely completion of the audit and to ensure that the work is properly supervised. We would work closely with management to ensure that we provide timely services consistent with your requirements. We will prepare the financial statements in accordance with professional standards and will review the drafts of all our reports and letters with the LAFCO prior to finalization to ensure the reports meet your requirements. Upon completion of the audit, we will provide the LAFCO with copies of our reports, as needed, for distribution to management, the Board, and other interested parties.

Our firm philosophy centers around our commitment to the highest level of quality service--delivered by quality people. Our tradition of providing technical excellence through teamwork responsive to clients' needs and expectations--and doing so to the very best of our ability--requires that our single focus be on quality. Our commitment to quality results in:

- Satisfying the LAFCO's needs by providing value-added services.
- Attracting and retaining clients of the highest caliber.
- Providing personal satisfaction and opportunity for professional growth for every member of our organization.

Some of the specific benefits the LAFCO will realize from our audit approach include:

A Smooth, Quick Transition--Our audit approach and our experience with initial audits and in succeeding other auditors prepares us to effect a smooth transition. Our approach to transition engagements, with which we are very experienced, will result in:

- A thorough review and evaluation of your systems of internal accounting and compliance controls.
- A review and evaluation of your significant data processing systems and controls.
- A fresh review of operating practices.

Ongoing Communications with Management--We will work closely with you to resolve issues and serve as the LAFCO's advisor on a timely basis. We do not take dogmatic, unyielding positions, and will keep the lines of communications open. We understand the concepts of materiality and will work with the LAFCO personnel on all issues with materiality in mind. Members of our engagement team will be readily available to answer the LAFCO's questions and to respond to the LAFCO's needs.

Relevant and insightful suggestions--Our plan and approach requires us to obtain a complete knowledge of the LAFCO's operating environment and accounting systems. This will position us well as an "advisor" to the LAFCO's management.

Less disruption to the LAFCO--Our audit plan will result in the most effective and efficient combination of internal control and account balance testing. This will eliminate duplicate procedures and unnecessary tasks, minimizing the necessary number of auditors and, consequently, result in less disruption of the LAFCO's personnel.