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May 27, 2009

The Commissioners
El Dorado Local Agency Formation Commission
550 Main Street, Suite E
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Dear Commissioners:

A summary of our plan to audit the financial statements of El Dorado Local Agency Formation Commission (LAFCo) as of and for the year ending June 30, 2008, follows.

Objective

Our audit of the financial statements will be made in accordance with auditing standards generally accepted in the United States of America. The objective of an audit performed in accordance with such standards is to express an opinion on the financial statements. In connection with our audit of LAFCo's financial statements, we will also communicate any recommendations to improve LAFCo's internal controls.

Our Responsibility

Our responsibility under the aforementioned standards is to express an opinion on LAFCo's financial statements. An audit made in accordance with those standards is designed to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatement.

Audit Scope and Materiality

The scope of our audit of the financial statements is designed to provide reasonable assurance that LAFCo's financial statements are free of material misstatements resulting from error or fraud. Professional judgment is required to evaluate if a misstatement is material. Quantitative guidelines we use to establish materiality may range up to 10% of income and 1% of revenues of LAFCo. For purposes of audit testing, we generally use procedures designed to detect misstatements (either individually or in the aggregate) in account balances that range from one-third to three-quarters of the amount considered material. When evaluating misstatements, we also consider qualitative factors. We encourage management to record adjustments for all misstatements other than those that are clearly inconsequential. Misstatements and fraud will be discussed with you as well as appropriate levels of management.

Audit Approach

Our audit approach is designed to audit the financial statements of LAFCo in a most cost-effective manner. The nature, timing, and extent of our contemplated procedures for significant accounts are based on a risk assessment of the likelihood of material misstatements occurring in those accounts. Risk assessment considers the nature of the account and the kinds of accounting data processes (i.e., routine, non-routine and estimation) and related controls affecting it. We contemplate an audit strategy based on reliance on controls. We plan to execute audit procedures to substantiate account balances as of year-end.

In conducting our audit, we maintain an awareness of the possibility that misstatements, fraud or illegal acts (as defined in authoritative professional literature) may have occurred that could have a material and direct effect on the financial statements.

Effective internal controls are designed to prevent or detect misstatements, fraud or illegal acts; however, it is possible that they may nevertheless occur. Although audits made in accordance with auditing standards generally accepted in the United States of America cannot provide absolute assurance that such misstatements, fraud or illegal acts will be detected, we have planned our audit to search for any that would have a material and direct effect on the financial statements. We will report to management and to you any such situations that come to our attention even though they may not be material in relation to the financial statements taken as a whole.

Areas of Audit Emphasis

In addition to what would be considered our normal, customary procedures, we will focus our attention on:

- Changes in the control environment (e.g., new systems, standards, regulations, products, changes in personnel, etc.) and LAFCo's financial statement closing process.
- Accounts payable and cut off.
- Compensated Absences

Internal Control Deficiencies

Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit* (SAS 112), establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements. SAS 112 provides definitions of a control deficiency, a significant deficiency, and a material weakness. Those definitions follow:

> A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when, (a), a control necessary to meet the control objective is missing; or, (b), an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.
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> A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles (GAAP) such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.
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> A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Under SAS 112, deficiencies in the following areas ordinarily are at least significant deficiencies in internal control:

- Controls over the selection and application of GAAP
- Antifraud programs and controls
- Controls over nonroutine and nonsystematic transactions
- Controls over the period-end financial reporting process.

Indicators of a control deficiency that should be regarded as at least a significant deficiency, and a strong indicator of a material weakness, in internal control include:

- Ineffective oversight of the entity's financial reporting and internal control by those charged with governance.
- Restatement of previously issued financial statements to reflect the correction of a material misstatement.
- Identification by the auditor of a material misstatement in the financial statements for the period under audit that was not initially identified by the entity's internal control.
- Identification of fraud of any magnitude on the part of senior management.
- An ineffective control environment.

Independence

There are no relationships between any of our representatives and LAFCo that in our professional judgment may reasonably be thought to bear on independence.

Timetable

The timetable for our 2008 audit follows:

Procedures:	Dates
Mail accounts receivable confirmations, attorney letter, and bank and loan confirmations.	May 2009
Update documentation of internal controls. Read board minutes. Complete audit program and planning documentation including assessment of risk of fraud. Test internal controls. Execute substantive procedures of year end account balances. Closing conference.	June 1, and 2, 2009
Present draft of financial statements for management review.	June 19, 2009
Issue the auditors' report on the financial statements.	June 30, 2009

Closing Conference

At the conclusion of our audit, we will discuss LAFCo's financial statements and our related auditor's report thereon. In addition, we will specifically report to you information about the following items.

- Significant accounting policies.
- The adoption of new accounting principles or changes in accounting principles.
- Significant sensitive accounting estimates.
- Significant audit adjustments.
- Disagreements with management about auditing, accounting, or disclosure matters.
- Consultations by management with other auditors.
- Difficulties in dealing with management relating to the performance of the audit.
- Material misstatements, fraud, and possible illegal acts.
- Significant deficiencies and material weaknesses in internal controls.
- Significant disclosures.

- Unadjusted audit differences considered by management to be immaterial.
- Our judgments about the quality of the Company's accounting principles.
- Methods of accounting for significant unusual transactions and for emerging issues.
- Other matters as considered appropriate.

Restricted Use

This report is intended solely for your information and use and that of LAFCo's management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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