



CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- Donald L. Parker, CPA
- Michael K. Chu, CPA
- David E. Hale, CPA, CFP
A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA

March 26, 2010

Jacki Bacharach
South Bay Cities Council of Governments
5033 Rockvalley Road
Rancho Palos Verdes, CA 90275

Dear Ms. Bacharach:

We are pleased to confirm our understanding of the services we are to provide the South Bay Cities Council of Governments for the year ended June 30, 2010. We will audit the financial statements of the South Bay Cities Council of Governments as of and for the year ended June 30, 2010.

Audit Objectives

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 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 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 the accounting records of the South Bay Cities Council of Governments 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.

Management Responsibilities

Management is responsible for establishing and maintaining internal control 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 of that information. We will advise you about appropriate accounting principles and their application and will advise you in the preparation of your financial statements, but the responsibility for the financial statements remains with you. As part of our engagement we may propose standard, adjusting or correcting journal entries to your financial statements. You are responsible for reviewing the entries and understanding the nature of any proposed



entries and the impact they have on the financial statements. 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 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 involving: (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. You are also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud 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.

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 from errors, fraudulent financial reporting, misappropriation of assets or violations of laws or regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. 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 that come to our attention, and we will inform you of any fraudulent financial reporting or misappropriation of assets that comes to our attention. We will also inform you of any violations of laws or 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 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 South Bay Cities Council of Governments 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 the South Bay Cities Council of Government'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.



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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 the South Bay Cities Council of Government's financial statements.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and 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 level.

An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, we will inform the 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, Fees, and Other

If applicable, we would perform all other services as specified in our agreement. If the additional services to be provided is considered nonattest (nonaudit) services, management is responsible for making all management decisions and perform all management functions; designate a competent employee preferably within senior management to oversee the services; evaluate the adequacy and results of the services; and establish and maintain internal controls, including monitoring ongoing activities.

Our fee for these services is a **not to exceed** agreement of \$5,000. Should the time involved result in an amount less than the agreed amount, we will invoice you for the lesser amount. Our invoices for these fees will be rendered as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 90 days or more overdue and may not be resumed until your account is paid in full.

We appreciate the opportunity to be of service to the South Bay Cities Council of Governments 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,

Lance, Soll & Lunghard, LLP



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RESPONSE:

This letter correctly sets forth the understanding of the South Bay Cities Council of Governments.

By: _____

Title: _____

Date: _____