



Moulton Niguel Water District

STAFF REPORT

TO: Board of Directors **MEETING DATE:** March 19, 2014

FROM: Matt Collings, Assistant General Manager

SUBJECT: Agreement for Independent Audit Services

SUMMARY:

Issue: Consideration of the engagement of an Independent Certified Public Accounting Firm to provide annual audits for fiscal years 2013-14, 2014-15, and 2015-16, with an option to extend to 2016-17 and 2017-18.

Recommendation: It is recommended that the Board of Directors approve a Professional Services Agreement in an amount not-to-exceed \$119,000 with Lance, Soll & Lunghard, LLP for the provision of independent audits.

Fiscal Impact: Funds are budgeted in the Annual Audit operating expense account for the provision of these services.

DISCUSSION:

On January 24, 2014, the District issued a Request for Proposals (RFP) to twelve firms to perform annual audits for fiscal years 2014, 2015, and 2016 for the District. At the District's option, services could be extended for two years.

Six proposals were received on February 24, 2014 in response to the RFP. Firms that submitted proposals were:

- Charles Z. Fedak & Company
- Haskell & White LLP
- Lance, Soll & Lunghard, LLP
- Mayer Hoffman McCann P.C.
- Nigro & Nigro PC
- Rogers, Anderson, Malody & Scott, LLP

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Written proposals were evaluated by the District's Assistant General Manager, Controller, Accountant, Public Financial Management (PFM), and Michael Bell. The proposals were evaluated based upon the following criteria:

- Firm qualifications and experience
- Partner, supervisory, and staff qualifications and experience
- Similar engagements with other governmental agencies
- Audit approach
- Cost

The scope of work for the selected independent auditor includes, but is not limited to, the following tasks:

1. The audit shall be in compliance with Section 26909 of the Governmental Code and the related State Controller Guidelines.
2. The District desires the independent auditor to express an opinion on the fair presentation of its general purpose financial statements in conformity with Generally Accepted Accounting Principles (GAAP).
3. The audit shall be a full-scope financial and compliance review of all funds and account groups of the District. The auditor shall issue an opinion letter on the District's financial statements, in compliance with applicable legal provisions, the auditor's report on the study and evaluation of internal control system and the auditor's report on compliance.
4. The auditor shall provide guidance and technical assistance in completing the Comprehensive Annual Financial Report ("CAFR"), including the Management Discussion and Analysis ("MD&A"), to adhere to the standards required by *GASB Statement No. 34*.
5. The audits performed under the RFP shall cover the following periods:
 - i. July 1, 2013 - June 30, 2014
 - ii. July 1, 2014 - June 30, 2015
 - iii. July 1, 2015 - June 30, 2016
 - iv. an option to extend for fourth & fifth year
6. Final copies of the financial statements, including the opinion letter, footnotes, and supplemental information, must be available for review by the Board of Directors during a regular Board Meeting.
7. The auditor shall submit a written management letter to the Board of Directors that communicates any observations for improvements in the District's financial operations, and any material deficiencies in internal controls that need to be addressed by the District.

8. The auditor shall assist the District's personnel in applying GAAP and provide support necessary to maintain sound financial management procedures. The auditor shall provide financial advice and counsel on significant matters occurring throughout the year that would affect the annual reports and sound accounting practices.
9. The auditor shall perform a financial and compliance review of the Public Facility Corporation (PFC). The auditor shall issue an opinion letter on the PFC's financial statements, in compliance with applicable legal provisions, the auditor's report on the study and evaluation of internal control system and the auditor's report on compliance.
10. The auditor shall review the District's investments, procedures and reports to ensure that the District's investments comply with its investment policy, and that the policy complies with all provisions of all the applicable California Government Code Sections as to the type of investment, percent of portfolio, period to maturity and rating.

Based upon the evaluation, two firms were selected for interviews, Charles Z. Fedak & Company, and Lance, Soll & Lunghard, LLP. On March 5, 2014, both firms were interviewed by the District's Assistant General Manager, Controller, Accountant, and Michael Bell. The interview panel determined that Lance, Soll & Lunghard, LLP provided the best qualified proposal to perform the audit.

It is recommended to the Board of Directors that Lance, Soll & Lunghard, LLP be hired at a cost not to exceed \$118,942.00 for fiscal years ending June 30, 2014 – 2016 to provide audit services as described in the attached Agreement. The District retains the option to extend the Agreement up to two more years (fiscal 2017-2018) at a cost not to exceed \$83,313.

Attachments:

1. Agreement for Consulting Services Between Moulton Niguel Water District And Lance, Soll & Lunghard, LLP MNWD Project: Annual Independent Audit, 2014-2016; Contract No. Om13-14.025
2. Lance, Soll & Lunghard, LLP Proposal

**PROFESSIONAL SERVICES AGREEMENT FOR INDEPENDENT AUDITING SERVICES
BETWEEN MOULTON NIGUEL WATER DISTRICT AND
LANCE, SOLL & LUNGHARD, LLP
CONTRACT NO. OM13-14.025**

THIS AGREEMENT (the "Agreement") is dated as of _____, 2014, by and between Lance, Soll & Lunghard, LLP, hereinafter referred to as the "AUDITOR" and Moulton Niguel Water District hereinafter referred to as "MNWD". MNWD and AUDITOR may sometimes be referred to in this Agreement individually as "party" and together as "parties."

In CONSIDERATION of the covenants hereinafter set forth, the parties hereto mutually agree as follows:

AGREEMENT

SECTION I – SCOPE OF AUDITOR’S SERVICES

Section 1.1 AUDITOR shall perform independent auditing services and duties that are set forth in Exhibit A – Scope of Work (the "Scope of Work"), which is attached hereto and incorporated herein by this reference as **Exhibit A**.

Section 1.2 MNWD may request or AUDITOR may recommend, that AUDITOR perform work in addition to or different from that delineated in the original Scope of Work, or delete services from the Scope of Work. Upon MNWD's request for additional or changed work, AUDITOR shall provide a cost estimate and written description of the additional or changed work. Prior to any such addition, changes, or deletion to the Scope of Work, MNWD and AUDITOR shall negotiate an adjustment of the compensation and time for completion and shall execute a written addendum to this Agreement. Upon execution of each addendum, (i) the Scope of Work shall thereafter be as described in **Exhibit A**, respectively, as modified by the addendum and any previously executed addendum; and (ii) the time for completing the work shall be as set forth in the addendum. Following execution of any addendum, all terms and provisions of the Agreement, except as expressly modified by such addendum, shall remain in full force and effect. MNWD will not be required to pay for any additional or changed work rendered in advance of the execution of an addendum covering the additional or changed work.

SECTION II – PERFORMANCE OF SERVICES

Section 2.1 AUDITOR shall perform all services and duties pursuant to this Agreement in a professional and timely manner, at the direction of the Controller, or her designee. All directives, instructions, or other communications from MNWD to AUDITOR shall be through only the Controller, or her designee.

Section 2.2 AUDITOR agrees shall promptly notify MNWD of any anticipated delays or causes or casualties beyond AUDITOR'S control which may affect the work schedule. In the event the time for completing the Scope of Work is projected to be exceeded due to circumstances beyond the control of AUDITOR, AUDITOR shall have an additional amount of time to be agreed upon in writing between the parties pursuant to Section 1.1 and an executed addendum, in which to complete the work. AUDITOR shall not begin work on any services pursuant to this Agreement until receipt of MNWD'S written direction to proceed. Upon receipt of such notice, AUDITOR shall immediately commence the services described in **Exhibit A**.

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Section 2.3 AUDITOR shall provide all personnel necessary to properly perform the services and duties required under this Agreement, and shall at all times direct such personnel in the performance of such services and duties. Deborah Harper, CPA shall serve as AUDITOR'S principal liaison between MNWD and AUDITOR.

Without prior written approval of MNWD, AUDITOR will not make any changes in AUDITOR'S representative, in consultants, in outside labor arrangements, or associations or joint ventures which are required to accomplish any part of the Scope of Work.

Section 2.4 AUDITOR shall not subcontract any of the Services without the prior written consent of MNWD.

Section 2.5 MNWD shall provide or make available to AUDITOR at no cost, all information, data, records, maps, reports, plans, equipment, or other material in its possession and other information reasonably required by AUDITOR for carrying out the services and duties contemplated under this Agreement.

Section 2.6 AUDITOR will furnish to MNWD the agreed upon number of reports and supporting documents. These instruments of service are furnished for MNWD'S use in connection with the project or work provided for in this Agreement and shall become MNWD'S property upon receipt. All documents and information generated by AUDITOR pursuant to this Agreement shall remain confidential and shall not be copied, distributed, or otherwise provided or referenced by AUDITOR to any third parties other than with MNWD'S written consent, or as compelled by order of court.

SECTION III – COMPENSATION FOR SERVICES

Section 3.1 In consideration for providing the Services referred to in SECTION I herein, MNWD agrees to compensate AUDITOR on an hourly rate basis, with a not-to-exceed maximum amount of **One Hundred Eighteen Thousand Nine Hundred Forty-Two Dollars (\$118,942.00)**. The breakdown of the fee and costs for the Services is attached hereto as **Exhibit B - Fee Schedule** which is attached hereto and incorporated herein.

Section 3.2 Payments will be made based on monthly submittal of invoices by AUDITOR. Invoices will include the number of hours worked by various labor categories, the hourly billing rate per individual, and the total amount due. Only one bill per month shall be submitted by AUDITOR.

SECTION IV - TERM

Section 4.1 This Agreement shall commence on April 1, 2014, for a period of three (3) years and shall terminate on June 30, 2017 or upon completion of audit services for fiscal years ending June 30, 2014 through June 30, 2016, whichever is sooner, unless terminated earlier pursuant to Section VIII of this Agreement.

Section 4.2 This Agreement may be extended, at District's option, for two additional one-year terms, at the prices in the Fee Schedule listed in Exhibit B. Subject to the District's sole discretion, an extension will be based upon a satisfactory review of AUDITOR'S performance, MNWD'S needs, and appropriation of funds by the MNWD Board of Directors. The parties will prepare a written amendment indicating the effective date and length of the extended Agreement.

SECTION V - OWNERSHIP OF DOCUMENTS

Section 5.1 MNWD and AUDITOR agree that all records, data, reports or other documentation prepared by AUDITOR, in response to, or as a result of the performance of this Agreement shall be the sole property of AUDITOR. MNWD and AUDITOR acknowledge and agree that all records, data, reports or other documentation prepared by AUDITOR pursuant to this Agreement shall be retained by AUDITOR for seven years after the date of the audit report.

SECTION VI - WARRANTY/DISCLAIMER

Section 6.1 In performing services under this Agreement, AUDITOR shall observe and abide by the terms and conditions of all applicable laws, regulations, ordinances, or other rules of the United States, of the State of California, or any political subdivisions thereof, or of any other duly constituted public authority or agency including but not limited to MNWD.

SECTION VII - INSURANCE AND INDEMNIFICATION

Section 7.1 Professional Liability Insurance. AUDITOR shall maintain throughout the term of this Agreement a professional liability (errors and omissions) policy of insurance having coverage of not less than One Million Dollars (\$1,000,000) for each claim and in annual aggregate. The following provisions shall apply if the professional liability coverage is written on a claims-made basis:

- (a) The retroactive date of the policy must be shown and must be dated before the date of this Agreement.
- (b) Insurance must be maintained and evidence of insurance must be provided for at least three (3) years after completion of this Agreement or the services hereunder.
- (c) If coverage is canceled or not renewed and it is not replaced with another claims made policy form with a retroactive date that precedes the date of this Agreement, AUDITOR must provide extended reporting coverage for a minimum of three (3) years after completion of the services. MNWD shall have the right to exercise at the AUDITOR'S cost any extended reporting provisions of the policy should the AUDITOR cancel or not renew the coverage.
- (d) A copy of the claims reporting requirements must be submitted to MNWD prior to the commencement of any work under this Agreement.

Section 7.2 General/ Automobile Liability Insurance. AUDITOR shall maintain throughout the term of this Agreement a general liability policy of insurance for bodily injury and/or death, personal injury and property damage claims which may arise from or in connection with the performance of the work under this Agreement by AUDITOR and each of their agents, representatives, or employees. Such public liability and property damage insurance (which shall cover claims, injury, death, loss or damage or accidents from the use or operation of any automobiles, trucks and/or other mobile or stationary equipment, whether owned, non-owned or hired) shall be comprehensive in form and shall be on a "per occurrence" basis in a minimum amount of One Million Dollars (\$1,000,000) per occurrence and an annual aggregate limit in a minimum amount at least twice the per occurrence limit specified in this section.

All insurance provided under this Section 7.2 shall name MNWD and its' directors, officers, employees and representatives as additional insureds under each such policy ("additional

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insureds”) and an additional insured endorsement shall be provided in form acceptable to MNWD.

Section 7.3 Worker’s Compensation. By its signature hereunder, AUDITOR certifies that it is aware of the provisions of Section 3700 of the California Labor Code which requires every employer to be insured against liability for workers’ compensation or to undertake self-insurance in accordance with the provisions of that code, and that AUDITOR will comply with such provisions before commencing the performance of work under this Agreement. AUDITOR shall maintain throughout the term of this Agreement workers’ compensation insurance with limits no less than the statutory limits, and Employer’s Liability insurance with limits no less than One Million Dollars (\$1,000,000) per accident and per disease for their employees and shall file with the MNWD the certificate required by Labor Code Section 3700. The workers compensation/Employer’s Liability insurance shall be endorsed with a waiver of subrogation in favor of MNWD and its’ directors, officers, employees and representatives.

Section 7.4 Requirements of All Policies. All policies of insurance required under this SECTION IV shall be from insurance providers who are either admitted or licensed to do business in California, or are Surplus Lines Carriers authorized to do business in California, and who have financial size and ratings of no less than A-, Class XIII, and in either case are otherwise acceptable to MNWD. All such policies shall include a provision and executed endorsement for thirty (30) days prior written notice by certified mail, return receipt requested, to MNWD of any cancellation or material alteration of such insurance. AUDITOR shall provide original certificates and endorsements for all such insurance on forms approved by MNWD in conformity with all requirements of this Agreement prior to commencement of any work or professional services. The policies required hereunder shall be endorsed to include contractual liability.

In the case of additional insured provisions, any insurance afforded the additional insureds by this Agreement is primary insurance as to the additional insureds. Any insurance or self-insurance maintained by the additional insureds shall be excess of the AUDITOR’S insurance, and shall not contribute to such insurance.

Any deductibles or self-insured retentions must be declared in writing and approved by MNWD. At the option of MNWD, either: the insurance provider(s) shall reduce or eliminate such deductibles or self-insured retentions as respects the MNWD and its’ directors, officers, employees and representatives; or the AUDITOR shall provide a financial guarantee satisfactory to MNWD guaranteeing payment of losses and related investigations, claim administration and defense expenses. Maintenance of insurance coverage as specified in this Agreement is a material term of this Agreement, and any failure to maintain or renew coverage, or to provide evidence thereof, as required by the terms is a material breach of this Agreement.

Section 7.5 Indemnification.

AUDITOR shall defend, indemnify, and hold harmless, including the cost to defend, MNWD and its directors, officers, employees and representatives from liability, claims, damages, demands, actions, attorneys’ fees, costs and expenses (i) for personal injury, bodily injury or property damage that arise out of, pertain to, or relate to the operations and work of the AUDITOR under this Agreement, (ii) that arise out of, pertain to, or relate to AUDITOR’S: (a) performance of the Services, including but not limited to negligent acts, errors or omissions, recklessness, or willful misconduct in the performance (or actual or alleged non-performance) of the Services under this Agreement, (b) a breach or violation of any laws, statutes, ordinances, codes, regulations and requirements of any applicable federal, state and local government authorities or agencies; and (c) a breach by AUDITOR of any of its obligations under this Agreement.

The AUDITOR'S obligations pursuant to this Section shall survive the expiration or termination of this Agreement and/or the performance or completion of any or all services and work provided under this Agreement. This indemnity obligation shall apply to all liability regardless of whether any insurance is applicable, and the policy limits of any insurance shall not act as a limitation upon the indemnification, and amounts related thereto, to be provided by AUDITOR hereunder.

SECTION VIII - TERMINATION OR ABANDONMENT

Section 8.1 This Agreement may be terminated in whole or in part in writing by: (i) MNWD at any time, during any term or extended term, with or without cause, provided that no such termination may be effected unless MNWD provides AUDITOR with not less than ten (10) calendar day's written notice (deliver by certified mail, return receipt requested) of its intent to terminate; or (ii) with or without cause by AUDITOR following AUDITOR's satisfactory completion of its obligations for any of the auditing periods subject to this Agreement, with not less than thirty (30) calendar day's written notice (by certified mail, return receipt requested) to MNWD of its intent to terminate. Additionally, MNWD may suspend performance by AUDITOR of any or all services listed in the Scope of Work under this Agreement by providing written notice to AUDITOR at least five (5) working days prior to the date on which MNWD wishes to suspend; provided, upon receipt of such notice, AUDITOR shall immediately suspend any work or services hereunder, unless otherwise instructed by MNWD in such notice.

Section 8.2 AUDITOR shall not perform further work under this Agreement after the effective date of suspension until receipt of written notice from MNWD to resume performance. MNWD and AUDITOR agree that in the event MNWD suspends or terminates performance by AUDITOR for any cause other than the intentional or negligent error or omission of AUDITOR, AUDITOR shall be entitled to payment of compensation incurred prior to the effective date of the suspension or termination, as determined under SECTION III of this Agreement.

Section 8.3 In the event of any suspension or termination herein, MNWD shall have the right to take possession and shall immediately own all original drawings and other documents developed for that portion of the work completed and/or being suspended or abandoned.

SECTION IX - GENERAL

Section 9.1 AUDITOR represents that it is aware of no facts or circumstances which would impair its ability to provide fair and unbiased advice to MNWD in the course of performing the Services hereunder, or which would impact its objectivity in performing such services hereunder.

Section 9.2 This Agreement represents the entire understanding of MNWD and AUDITOR as to those matters contained herein. No prior oral or written understanding shall be of any force or effect with respect to those matters covered hereunder. This Agreement may not be amended, modified or altered except in writing, signed by the parties. This Agreement shall not be construed against the party preparing it, but shall be construed as if both parties prepared it.

Section 9.3 Any notice required or permitted to be given hereunder if not otherwise specified herein may be given or delivered by depositing the same in the United States Post Office, registered or certified, postage prepaid, or by personal service a hand delivery, and addressed to:

To MNWD - Attn: Matt Collings, Assistant General Manager
 Moulton Niguel Water District
 27500 La Paz Road
 Laguna Niguel, CA 92677-3489

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To AUDITOR - Attn: Deborah Harper, CPA
Lance, Soll & Lunghard, LLP
203 North Brea Blvd., Suite 203
Brea, CA 92821

Section 9.4 California law shall govern the interpretation of this Agreement. In the event of any legal action to enforce or interpret this Agreement, the sole and exclusive venue shall be a court of competent jurisdiction located in Orange County, California, and the parties hereto agree to and do hereby submit to the jurisdiction of such court, notwithstanding Code of Civil Procedure 394.

Section 9.5 In the event an action is commenced by either party to enforce its rights or obligations arising from this Agreement, the prevailing party in such action, in addition to any other relief and recovery awarded by the court, shall be entitled to recover all costs and expenses, including court costs, plus a reasonable amount for attorney's fees.

Section 9.6 If any section of this Agreement or provision of this Agreement as applied to either party or to any circumstance shall be adjudged by a court of competent jurisdiction to be void or unenforceable for any reason, the same shall in no way affect (to the maximum extent permissible by law) any other provision of this Agreement, the application of any such provision under circumstances different from those adjudicated by the court, or the validity or enforceability of this Agreement as a whole.

Section 9.7 It is expressly understood and agreed that AUDITOR is an independent contractor for the sole purpose of rendering the professional and/or special Services and is not an employee or agent of MNWD. AUDITOR warrants that it will not represent, at any time or in any manner, that AUDITOR is an employee or agent of MNWD. AUDITOR shall have no authority to, and shall not, incur any debt, obligation or liability on behalf of MNWD.

Section 9.8 This Agreement shall not be assignable by either party without the prior written consent of the other party.

Section 9.9 The person signing this Agreement on behalf of each party hereto represents he/she has authority to sign on behalf of, respectively, MNWD or AUDITOR.

Section 9.10 This Agreement and all of the terms, conditions, and provisions hereof shall inure to the benefit of and be binding upon the parties hereto, and their respective successors and assigns; provided, however, that no assignment of this Agreement or any interest herein shall be made by AUDITOR without prior written consent of MNWD.

Section 9.11 This Agreement may be executed in counterparts, each of which shall be deemed an original.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on this _____ day of _____, _____.

Moulton Niguel Water District

By: _____
Joone Lopez
General Manager

AUDITOR – Lance, Soll & Lunghard, LLP

By: _____
Title: _____

EXHIBIT A**SCOPE OF WORK**

AUDITOR shall perform the following tasks pursuant to the Agreement:

1. Perform an audit in compliance with *Section 26909 of the Governmental Code* and the related State Controller Guidelines.
2. Express an opinion as to whether the financial statements and associated notes conform to accounting principles generally accepted in the United States of America. Audit shall also include performing a review and making recommendations on the internal control structure, which consists of the Control Environment, Accounting System and Control Procedures. Annually, AUDITOR will prepare and issue the SAS 115 "management letter". Also, AUDITOR shall make an immediate and written report of any irregularities and illegal acts or indication of illegal acts coming to our attention.
3. Include financial statements within a Comprehensive Annual Financial Report (CAFR) which may be submitted under the National awards programs. AUDITOR will provide guidance and technical assistance in completing this CAFR, including the Management Discussion and Analysis and ensuring that the standards required by GASB Statement No. 34 are met.
4. Perform annual audits for the fiscal years ending June 30, 2014, June 30, 2015 and June 30, 2016 with the option to extend to the fiscal years ending June 30, 2017 and June 30, 2018. All working papers and reports will be retained (at AUDITOR's expense) for a minimum of seven (7) years, unless we are notified by the District of the need to extend that retention period.
5. Prepare the basic financial statements and related footnotes and supplementary information using the trial balance and general ledger provided by the District for each fiscal year.
6. Provide draft copies of the financial statements including the journal entries and supporting information for such journal entries that were posted to the trial balance to the District for their review and approval before finalizing the financial statements.
7. Make available to the Board of Directors for review during a regular Board Finance and Information Technology meeting the final copy of the financial statements, including the related footnotes, supplementary information, and the audit opinion letter.
8. The Audit Communication Letter, in accordance with SAS 114, and the Management Letter, in accordance with SAS 115, will be submitted to the Board of Directors annually. These letters will include AUDITOR's observations for improvements in the District's financial operations and any deficiencies in internal controls that need to be addressed by the District.
9. Be available to attend at least three District management meetings and/or public meetings for each fiscal period at which the audit report may be discussed.
10. Assist the District's personnel in applying GAAP and provide support necessary to maintain sound financial management procedures. This will include financial advice and counsel on significant matters occurring throughout the year that would affect the annual

reports and sound accounting practices. These services will be provided up to a maximum of 20 hours per year at no additional cost to the Moulton Niguel Water District.

11. Requesting the District's personnel to provide schedules, locate information and answer questions for the completion of the annual audits.
12. Perform agreed upon procedures (AUP) and issue a report on the calculation of the District's Appropriations Limit (GANN), as required by Article XIII B Section 1.5 of the California Constitution.
13. Prepare the Annual State Controller's Reports for the District as required by California Government Code Section 53891.
14. Prepare the Federal and State of California tax returns, Form 990 and Form 199, for tax exempt organizations each fiscal year.
15. Perform a financial and compliance review of the Moulton Niguel Water District Public Facilities Corporation and issue an opinion on the financial statements as well as a report on internal controls and compliance with applicable laws and regulations.
16. Perform agreed upon procedures (AUP) and issue a report on the investment activities of the District and compliance with the District's Investment Policy as well as the District's Investment Policy's compliance with the California Government Code Sections as to the type of investment, percent of portfolio, period to maturity and rating.
17. Provide (10) bound copies, (1) unbound copy, and (1) electronic copy of the complete financial statements to the District.

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EXHIBIT B
FEE SCHEDULE

COST PROPOSAL

Service	OPTION YEARS									
	2013-14		2014-15		2015-16		2016-17		2017-18	
	Hours	Costs	Hours	Costs	Hours	Costs	Hours	Costs	Hours	Costs
District Audit	207	\$30,905	207	\$31,523	207	\$32,154	207	\$32,797	207	\$33,453
PFC Audit	19	2,710	19	2,764	19	2,819	19	2,876	19	2,933
Tax Returns	14	2,300	14	2,346	14	2,393	14	2,441	14	2,490
GANN Limit	3	435	3	444	3	453	3	462	3	471
State Controller's Report	9	1,490	9	1,520	9	1,550	9	1,581	9	1,613
Investment Compliance Review	6	1,025	6	1,046	6	1,066	6	1,088	6	1,109
TOTAL	258	\$38,865	258	\$39,642	258	\$40,435	258	\$41,244	258	\$42,069

District Audit	OPTION YEARS									
	2013-14		2014-15		2015-16		2016-17		2017-18	
	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates
Partners	16	\$ 280	16	\$ 286	16	\$ 291	16	\$ 297	16	\$ 303
Managers	25	185	25	189	25	192	25	196	25	200
Supervisory Staff	70	140	70	143	70	146	70	149	70	152
Staff	96	125	96	128	96	130	96	133	96	135
Clerical	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Travel and other	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	207		207		207		207		207	

PFC Audit	OPTION YEARS									
	2013-14		2014-15		2015-16		2016-17		2017-18	
	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates
Partners	1	\$ 280	1	\$ 286	1	\$ 291	1	\$ 297	1	\$ 303
Managers	2	185	2	189	2	192	2	196	2	200
Supervisory Staff	4	140	4	143	4	146	4	149	4	152
Staff	12	125	12	128	12	130	12	133	12	135
Clerical	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Travel and other	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	19		19		19		19		19	

Tax Returns	OPTION YEARS									
	2013-14		2014-15		2015-16		2016-17		2017-18	
	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates
Partners	2	\$ 280	2	\$ 286	2	\$ 291	2	\$ 297	2	\$ 303
Managers	4	185	4	189	4	192	4	196	4	200
Supervisory Staff	-	140	-	143	-	146	-	149	-	152
Staff	8	125	8	128	8	130	8	133	8	135
Clerical	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Travel and other	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	14		14		14		14		14	

#5.**COST PROPOSAL (Continued)**

GANN Limit							OPTION YEARS			
	2013-14		2014-15		2015-16		2016-17		2017-18	
	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates
Partners	-	\$ 280	-	\$ 286	-	\$ 291	-	\$ 297	-	\$ 303
Managers	1	185	1	189	1	192	1	196	1	200
Supervisory Staff	-	140	-	143	-	146	-	149	-	152
Staff	2	125	2	128	2	130	2	133	2	135
Clerical	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Travel and other	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	3		3		3		3		3	

State Controller's Report							OPTION YEARS			
	2013-14		2014-15		2015-16		2016-17		2017-18	
	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates
Partners	1	\$ 280	1	\$ 286	1	\$ 291	1	\$ 297	1	\$ 303
Managers	2	185	2	189	2	192	2	196	2	200
Supervisory Staff	6	140	6	143	6	146	6	149	6	152
Staff	-	125	-	128	-	130	-	133	-	135
Clerical	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Travel and other	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	9		9		9		9		9	

Investment Compliance Review							OPTION YEARS			
	2013-14		2014-15		2015-16		2016-17		2017-18	
	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates
Partners	1	\$ 280	1	\$ 286	1	\$ 291	1	\$ 297	1	\$ 303
Managers	1	185	1	189	1	192	1	196	1	200
Supervisory Staff	4	140	4	143	4	146	4	149	4	152
Staff	-	125	-	128	-	130	-	133	-	135
Clerical	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Travel and other	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	6		6		6		6		6	

We're focused on **you**



MOULTON NIGUEL WATER DISTRICT

PROPOSAL TO PROVIDE
INDEPENDENT AUDIT SERVICES

ORIGINAL

#5.

MOULTON NIGUEL WATER DISTRICT

**PROPOSAL TO PROVIDE
INDEPENDENT AUDIT SERVICES**

COPY



MOULTON NIGUEL WATER DISTRICT

**PROPOSAL TO PROVIDE
INDEPENDENT AUDIT SERVICES**
Agreement No. OM13-14.025

Prepared by:

Lance, Soll & Lunghard, LLP
Certified Public Accountants
203 N. Brea Blvd, Suite 203
Brea, California 92821
(714) 672-0022



February 21, 2014

Contact Person:

Deborah A. Harper, CPA, Partner
deborah.harper@lslcpas.com

MOULTON NIGUEL WATER DISTRICT

PROPOSAL TO PROVIDE
INDEPENDENT AUDIT SERVICES

TABLE OF CONTENTS

	<u>Page No.</u>
1. Executive Summary	1
2. Statement of Independence	4
3. License to Practice in California	5
4. Firm Qualifications and Experience	
Location of Firm and Number of Personnel	6
Quality Control (Peer) Review	7
Disciplinary Action	7
5. Partner, Supervisory, and Staff Qualifications and Experience	
Personnel Assigned to the Audit	8
Staff Auditors.....	9
Continuing Education	9
Personnel Resumes	
Deborah A. Harper, CPA, Engagement Partner.....	10
Bryan S. Gruber, CPA, Concurring Partner/IT Specialist	11
Brian C. Shafia, CPA, Audit Manager	12
Trevor K. Agrelius, CPA, Audit Senior.....	13
6. References - Similar Engagements with Other Government Entities	14
7. Specific Audit Approach	
Proposed Segmentation of the Engagement	15
Sample Size and Extent of Statistical Sampling	15
Extent of EDP Software	15
Analytical Procedures	16
Approach to Understanding District’s Internal Control Structure.....	16
Approach in Determining Laws and Regulations Subject to Audit	16
Drawing on Sample Sizes	17
8. Cost Proposal	18
9. Conflict of Interest Statement	20
10. External Quality Control Review Report	21
11. Professional Insurance	22

February 21, 2014

Ms. Ruby Yuen
Moulton Niguel Water District
27500 La Paz Road
Laguna Niguel, CA 92677

Dear Ms. Yuen:

Lance, Soll & Lunghard, LLP is pleased to respond to your Request for Proposal for Professional Independent Auditing Services. As a leader in the field of governmental and non-profit accounting and auditing, we appreciate this opportunity given us to present our professional qualifications. Because of our extensive governmental and non-profit experience, dedication to excellence and determination to retain the brightest and most talented professionals, we are certain that Lance, Soll & Lunghard, LLP is the most qualified accounting firm to provide professional independent auditing services to the Moulton Niguel Water District.

The annual services that would be provided for the Moulton Niguel Water District, for the fiscal years ending June 30, 2014 through June 30, 2016 with the option for the two subsequent fiscal years, would be as follows:

1. Perform an audit in compliance with *Section 26909 of the Governmental Code* and the related State Controller Guidelines.
2. Express an opinion as to whether the financial statements and associated notes conform to accounting principles generally accepted in the United States of America. Our audit also includes performing a review and make recommendations on the internal control structure, which consists of the Control Environment, Accounting System and Control Procedures. Annually, we will prepare and issue the SAS 115 "management letter". Also, we shall make an immediate and written report of any irregularities and illegal acts or indication of illegal acts coming to our attention.
3. Include financial statements within a Comprehensive Annual Financial Report (CAFR) which may be submitted under the National awards programs. We will provide guidance and technical assistance in completing this CAFR, including the Management Discussion and Analysis and ensuring that the standards required by GASB Statement No. 34 are met.
4. Perform annual audits for the fiscal years ending June 30, 2014, June 30, 2015 and June 30, 2016 with the option to extend to the fiscal years ending June 30, 2017 and June 30, 2018. All working papers and reports will be retained (at our expense) for a minimum of seven (7) years, unless we are notified by the District of the need to extend that retention period.

#5.



Ruby Yuen
Moulton Niguel Water District
February 21, 2014

5. Prepare the basic financial statements and related footnotes and supplementary information using the trial balance and general ledger provided by the District for each fiscal year.
6. Provide draft copies of the financial statements including the journal entries and supporting information for such journal entries that were posted to the trial balance to the District for their review and approval before finalizing the financial statements.
7. Make available to the Board of Directors for review during a regular Board Finance and Information Technology meeting the final copy of the financial statements, including the related footnotes, supplementary information, and the audit opinion letter.
8. The Audit Communication Letter, in accordance with SAS 114, and the Management Letter, in accordance with SAS 115, will be submitted to the Board of Directors annually. These letters will include our observations for improvements in the District's financial operations and any deficiencies in internal controls that need to be addressed by the District.
9. Be available to attend at least three District management meetings and/or public meetings for each fiscal period at which the audit report may be discussed.
10. Assist the District's personnel in applying GAAP and provide support necessary to maintain sound financial management procedures. This will include financial advice and counsel on significant matters occurring throughout the year that would affect the annual reports and sound accounting practices. These services will be provided up to a maximum of 20 hours per year at no additional cost to the Moulton Niguel Water District.
11. Requesting the District's personnel to provide schedules, locate information and answer questions for the completion of the annual audits.
12. Perform agreed upon procedures (AUP) and issue a report on the calculation of the District's Appropriations Limit (GANN), as required by Article XIII B Section 1.5 of the California Constitution.
13. Prepare the Annual State Controller's Reports for the District as required by California Government Code Section 53891.
14. Prepare the Federal and State of California tax returns, Form 990 and Form 199, for tax exempt organizations each fiscal year.
15. Perform a financial and compliance review of the Moulton Niguel Water District Public Facilities Corporation and issue an opinion on the financial statements as well as a report on internal controls and compliance with applicable laws and regulations.



Ruby Yuen
Moulton Niguel Water District
February 21, 2014

16. Perform agreed upon procedures (AUP) and issue a report on the investment activities of the District and compliance with the District's Investment Policy as well as the District's Investment Policy's compliance with the California Government Code Sections as to the type of investment, percent of portfolio, period to maturity and rating.

17. Provide (10) bound copies, (1) unbound copy, and (1) electronic copy of the complete financial statements to the District.

The sections that follow describe the benefits your organization would receive from Lance, Soll & Lunghard, LLP. **We are committed to provide the services discussed above in a timely manner.** This proposal is a firm and irrevocable offer for the fiscal years ending June 30, 2014 through June 30, 2016 with an option for the two subsequent fiscal years. For purposes of this proposal, Deborah A. Harper, Partner, is authorized to make representations for our firm, is empowered to submit the bid, and is authorized to sign a contract with the District. I can be reached at 203 N. Brea Blvd., Suite 203, Brea, California 92821, by phone at (714) 672-0022 or by email at, deborah.harper@slcpas.com.

Very truly yours,

A handwritten signature in blue ink that reads "Debbie A. Harper". The signature is written in a cursive style.

Deborah A. Harper, Partner
LANCE, SOLL & LUNGHARD, LLP

#5.

2. STATEMENT OF INDEPENDENCE

We meet the independence requirements as defined by **Auditing Standards Generally Accepted in the United States of America and the U.S. General Accounting Office's *Government Auditing Standards* (2011 revision)**. We are a partnership consisting of ten partners who do not own any other business organization that has in the past, or will in the future, be providing services, supplies, materials or equipment to the Moulton Niguel Water District or its component units. Lance, Soll & Lunghard, LLP will provide written notice of any professional relationship entered into during the period of the proposed agreement.

3. LICENSE TO PRACTICE IN CALIFORNIA

We are a public accounting firm licensed by the State of California, Department of Consumer Affairs, as a Public Accounting Partnership. All of our partners are Certified Public Accountants licensed by the State of California. As a firm, we are members of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants. All key staff to be assigned to this engagement are or will be licensed by the State of California to practice as Certified Public Accountants. Additionally, we will comply with all local laws relating to the conduct of our audits.

4. FIRM QUALIFICATIONS AND EXPERIENCE

Location of Firm and Number of Personnel



Lance, Soll & Lunghard, LLP (LSL) is a regional public accounting firm that has met the auditing needs of governmental entities throughout California for over 80 years. This experience has led to the development of efficient procedures that provide numerous client benefits. Our clients have grown to understand that an audit from LSL provides them with a wealth of knowledge, confidence and value added services. For this and many other reasons, LSL has consistently been named one of the “Top Accounting Firms” in Orange County by the Orange County Business Journal.



We have four offices throughout California which provide services to the western region of the United States. Our headquarters are located in Orange County in the City of Brea, California. This will be the office from which we would service the Moulton Niguel Water District.



We also have three other offices which include our Temecula Valley, Los Angeles County, and a Silicon Valley office.

In addition to our ten partners, our professional staff consists of one senior manager, fourteen managers, three supervisors, eight seniors and ten associates. Governmental staff consists of three partners, one senior manager, four managers, two supervisors, seven seniors and nine staff auditors. All personnel assigned to this engagement work on a full-time basis.

Local government expertise is led by the following partners:

- Richard K. Kikuchi, CPA, Partner
- Bryan S. Gruber, CPA, Partner
- Deborah A. Harper, CPA, Partner



4. FIRM QUALIFICATIONS AND EXPERIENCE (Continued)

Quality Control (Peer) Review



We are members of the American Institute of Certified Public Accountant's Private Companies Practice Section and the **Government Audit Quality Control Center**, which has the requirement for peer review along with Generally Accepted Government Auditing Standards. We have participated in the peer review program since its inception and have undergone several peer reviews. The first review was conducted by Arthur Young & Company (now Ernst & Young) and the most recent by R.H. Johnston Accountancy Inc. Overall, they confirmed what we already knew, that our approach and procedures are in compliance with technical and professional pronouncements. All of these peer reviews covered governmental engagements. Our most recent peer review, conducted by R.H. Johnston Accountancy Inc., is included in **Section 10** to this proposal.

Disciplinary Action

There have been no disciplinary actions against our organization since its inception. All of our Single Audit reports are desk reviewed either by the Federal cognizant agency or the State Controller's Office acting as the Oversight Agency. We have never had a report rejected by any of these agencies. In fact, we are highly regarded and recognized by the staff of the State Controller's Office as a firm that always submits top quality reports.

5. PARTNER, SUPERVISORY, AND STAFF QUALIFICATIONS AND EXPERIENCE

Personnel Assigned to the Audit

The most critical component in the successful completion of an audit is the personnel assigned to carry out the responsibilities. We have assembled a **Lance, Soll & Lunghard, LLP Team** composed of individuals with the optimum mix of talents. The individuals assigned have experience in performing the tasks for which they are responsible, as well as familiarity with all water district accounting operations. In addition, each has developed extensive skills in a variety of other complementary subjects through their work with clients in other government areas. Thus, the experience gained on previous assignments can be applied and tailored to the unique needs of your organization.

The partners at Lance, Soll & Lunghard, LLP are routinely an integral part of the audit process and will be overseeing and supervising staff personnel in the field. For the Moulton Niguel Water District, the personnel assigned to the engagement would be as follows:



Engagement Partner,
Deborah A. Harper, CPA



Concurring Partner
Bryan S. Gruber, CPA



Audit Manager
Brian C. Shafia, CPA



Audit Senior
Trevor K. Agrelius, CPA

Additional Professional Staff of 2 to 3 on the LSL team.

5. PARTNER, SUPERVISORY, AND STAFF QUALIFICATIONS AND EXPERIENCE (Continued)

Staff Auditors

The firm's policy of assigning seniors to an engagement requires that the senior have at least two years of governmental and non-profit auditing experience. He or she must have demonstrated a high degree of understanding of governmental and non-profit accounting and auditing, as well as of the firm's overall client philosophy. Having been assigned to the engagement before is also an important factor in assigning a senior to an engagement. Any changes in personnel at the senior level or above will be approved by the Moulton Niguel Water District. Lance, Soll & Lunghard, LLP's philosophy is to provide **quality audit services with minimal disruption to District staff.** Our focused efforts to obtain and retain quality staff have further enabled us to provide this to our clients. During the first year of the audit of the District, all LSL engagement staff will have a minimum of one full year with the Firm.



Continuing Education

As a firm policy, and in compliance with the continuing education requirements promulgated by the AICPA, General Accounting Office and the California Society of CPAs, all our staff auditors (certified and non-certified) meet the requirement of 40 hours of continuing education every year, with at least 24 hours in governmental accounting and auditing in a two year period. For our educational programs, we utilize in-house training programs developed by our Talent Development Director, California Society of CPAs attendance courses, AICPA training video tapes, and self-study AICPA/California Society of CPAs materials. Our formal education program was reviewed by independent firms during our peer review process and no exceptions were noted.

5. PARTNER, SUPERVISORY, AND STAFF QUALIFICATIONS AND EXPERIENCE
(Continued)

DEBORAH A. HARPER, CPA
ENGAGEMENT PARTNER

Education: Bachelor of Arts Degree in Business Administration with an emphasis in Accounting - California State University, Fullerton 2000

License: Certified Public Accountant – California 2005 (active)

Continuing Education: Total hours were 132 in last three years of which 68 were in governmental accounting and auditing subjects. Ms. Harper has met the Governmental Auditing Standards requirement for governmental CPE.

Memberships: California Society of Certified Public Accountants
American Institute of Certified Public Accountants
California Society of Municipal Finance Officers (Associate Member)
Government Finance Officers Association (Associate Member)
Governmental Accounting and Auditing Committee

Experience: Over twelve years of experience in governmental and non-profit audits. During her time with the firm, Ms. Harper has performed all phases of our government audits and made numerous presentations to Boards of Directors and Audit Committees. She has been involved on the following similar engagements:

Foothill Transit Authority	City of Simi Valley
Cucamonga Valley Water District	City of Seal Beach
Coachella Valley Water District	City of Orange
Irvine Great Parks	City of Monrovia
City of Aliso Viejo	City of Laguna Niguel
City of Corona	City of Yorba Linda
City of Irvine	City of Temecula

- This work entailed the preparation of the Comprehensive Annual Financial Report for those entities involved in the award programs of the California Society of Municipal Finance Officers and the Government Finance Officers Association of the United States and Canada.
- Review the audit of these entities and provide technical assistance throughout the year to provide the most up to date information with current GASB pronouncement.
- Present the overall audit results to audit committees or other Board Members.

Achievements: Ms. Harper has developed and conducts various Lance, Soll & Lunghard, LLP municipal training courses for new associates and members of the firm.

5. PARTNER, SUPERVISORY, AND STAFF QUALIFICATIONS AND EXPERIENCE
(Continued)

BRYAN S. GRUBER, CPA
CONCURRING PARTNER / IT SPECIALIST

Education: Bachelor of Arts Degree in Business Administration with an emphasis in Accounting – California State University, Fullerton 2004

License: Certified Public Accountant – California 2008 (active)

Continuing Education: Total hours were 132 in last three years of which 74 were in governmental accounting and auditing subjects. Mr. Gruber has met the Governmental Auditing Standards requirement for governmental CPE.

Memberships: California Society of Certified Public Accountants
American Institute of Certified Public Accountants
Government Finance Officers Association
California Society of Municipal Finance Officers
Association of Local Government Auditors

Experience: Over nine years of experience in governmental and non-profit audits. He has also made numerous presentations to City Councils, Boards of Directors and Audit Committees. He has been involved with the following engagements:

- | | |
|--|-----------------------------------|
| San Diego County Water Authority | Orange County Water District |
| Three Valleys Municipal Water District | Orange County Sanitation District |
| City of Aliso Viejo | City of Azusa |
| City of Burbank | City of Cathedral City |
| City of La Mirada | City of La Quinta |
| City of Lancaster | City of Emeryville |
| City of Oceanside | City of Orange |
| City of Palm Springs | City of Palos Verdes Estates |
| City of San Carlos | City of Santa Cruz |
| City of Seal Beach | City of South Pasadena |
| City of Temecula | City of Thousand Oaks |

Achievements: Mr. Gruber has been involved with teaching current audit and accounting related material at Lance, Soll & Lunghard, LLP's in house training seminars.

He has made numerous presentations at local chapter meetings for CSMFO on current accounting and auditing material.

He also currently serves as a technical reviewer for the Government Finance Officers Association (GFOA).

Serves as firm IT Specialist for his involvement in IT related controls, data mining and analysis, and auditing software.

5. PARTNER, SUPERVISORY, AND STAFF QUALIFICATIONS AND EXPERIENCE
(Continued)

BRIAN C. SHAFIA, CPA
AUDIT MANAGER

Education: Bachelor of Arts Degree in Business Administration with an emphasis in Accounting - California State University, Pomona 2007

License: Certified Public Accountant – California 2013 (active)

Continuing Education: Total hours were 140 in the last three years of which 85 were in governmental accounting and auditing subjects. Mr. Shafia has met the Governmental Auditing Standards requirement for governmental CPE.

Experience: Over five years of experience in governmental and non-profit audits. During his time with the firm Mr. Shafia has progressed in an outstanding manner. He has demonstrated his talent in the area of municipal accounting and auditing. Mr. Shafia has performed all phases of our governmental audits, including CAFR audits and Single Audits. He has been involved in the following engagements:

- | | |
|---|------------------------|
| Three Valleys Municipal Water District | City of Simi Valley |
| California Center for the Arts, Escondido | City of Chino Hills |
| California-Nevada Section– American Water Works Association | City of Corona |
| Irvine Great Park | City of Orange |
| City of Irvine | City of Chino Hills |
| City of Escondido | City of Fontana |
| City of South Pasadena | City of Oceanside |
| City of La Quinta | City of Cathedral City |
| | City of Indian Wells |
| | City of San Marino |
| | City of San Carlos |
| | City of Claremont |

- This work entailed the preparation of the Comprehensive Annual Financial Report for those entities involved in the award programs of the California Society of Municipal Finance Officers and the Government Finance Officers Association of the United States and Canada.
- Review the audit of these entities and provide technical assistance throughout the year to provide the most up to date information with current GASB pronouncement.

Achievements: Mr. Shafia has developed and conducts various Lance, Soll & Lunghard, LLP municipal training courses for new associates and members of the firm.

5. PARTNER, SUPERVISORY, AND STAFF QUALIFICATIONS AND EXPERIENCE
(Continued)

TREVOR K. AGRELIUS, CPA
AUDIT SENIOR

Education: Bachelor of Science Degree in Accounting – University of La Verne, 2008

License: Certified Public Accountant – California 2012 (active)

Continuing Education: Total hours were 137 in the last three years of which 61 were in governmental accounting and auditing subjects. Mr. Agrelius has met the Governmental Auditing Standards requirement for governmental CPE.

Experience: Over three years of experience in governmental and non-profit audits. Mr. Agrelius has progressed in an outstanding manner. During his time with the firm, Mr. Agrelius has performed all phases of our government audits, including water districts, other special districts, CAFR audits and Single Audits. He has been involved in the following municipal engagements:

California-Nevada Section	City of Escondido
American Water Works Association	City of Santa Cruz
Coachella Valley Water District	City of San Carlos
Orange County Fire Authority	City of Glendora
Orange County Sanitation District	City of Azusa
City of Brea	City of Orange
Ontario Convention Center	City of Fullerton
	City of Pomona
	City of Moreno Valley
	City of South Gate
	Long Beach Convention Center

- This work entailed the preparation of the Comprehensive Annual Financial Report for those entities involved in the award programs of the California Society of Municipal Finance Officers and the Government Finance Officers Association of the United States and Canada.

Achievements: Mr. Agrelius has developed and conducts various Lance, Soll & Lunghard, LLP municipal training courses for new associates and members of the firm.

6. References - Similar Engagements with Other Government Entities

Similar engagements performed would be as follows:

Orange County Water District – Audit and preparation of a Comprehensive Annual Financial Report (CAFR) which receives the National award and single audit in accordance with OMB A-133. Prepare the District's State Controller's Report. Review and issue a report on the calculation of the District's Appropriations Limit (GANN), as required by Article XIII B Section 1.5 of the California Constitution.

Contact person: Mr. Randy Fick, Chief Financial Officer (714) 378-3271.

Three Valleys Municipal Water District – Audit and preparation of a Comprehensive Annual Financial Report (CAFR) which receives the National award. Prepare the District's State Controller's Report.

Contact person: Mr. James Linthicum, Chief Finance Officer (909) 621-5568.

Coachella Valley Water District – Audit and preparation of a Comprehensive Annual Financial Report (CAFR) which receives the National award. Review and issue a report on the calculation of the District's Appropriations Limit (GANN), as required by Article XIII B Section 1.5 of the California Constitution. Preparation of an annual investment review report.

Contact person: Ms. Katherine Godbey, Finance Director (760) 398-2661.

Cucamonga Valley Water District – Audit and preparation of a Comprehensive Annual Financial Report (CAFR) which receives the National award.

Contact person: Mr. Chad Brantley, Finance Officer (909) 987-2591.

California-Nevada Section – American Water Works Association – Audit and preparation of annual financial statements. Preparation of the tax Form 990 and Form 199.

Contact person: Ms. Sita Ramakrishnan, Finance Officer (909) 291-2114.

California Center for the Arts, Escondido – Audit and preparation of annual financial statements. Preparation of the tax Form 990 and Form 199.

Contact person: Mr. Gary Poor, Finance Officer (760) 839-4184.

We welcome you contacting any or all of these to get their opinion on the services we provide.

7. SPECIFIC AUDIT APPROACH

We have described our audit approach as relating to the full-scope financial and compliance review of all funds and account groups of the Moulton Niguel Water District and its component unit, the Moulton Niguel Water District Public Facilities Corporation in detail below. This would include the audit approach to complete the review of the calculation of the appropriations limit, the preparation of the State Controller's Report, the preparation of the tax Form 990 and Form 199, and the review of the District's compliance with investment policies at the District and State level.

Proposed Segmentation of Engagement

We utilize a customized non-profit audit program which we will tailor to the Moulton Niguel Water District's operations. The tailoring is necessary to accommodate specific circumstances regarding the Moulton Niguel Water District and to recognize differences and unique characteristics among other Districts. Our audit programs are organized using the financial statement (balance sheet) category approach. This approach along with risk based auditing takes full advantage of our accumulated experience. The primary benefit is that the risk of omitting important procedures is substantially reduced. We believe that this approach tends to be the most effective and efficient for an entity such as the Moulton Niguel Water District. In a customized program, the audit procedures are listed in the most logical sequence, and that improves efficiency. In addition, we provide a custom prepared by client (PBC) listing in the same sequence. This allows the District's internal financial personnel to logically prepare their support schedules in the same format. We would make ourselves available to the District's internal financial personnel to assist in the preparation of the schedules.

Sample Size and Extent of Statistical Sampling

For the purpose of tests of controls, we may use audit sampling. Tests of controls are procedures directed towards determining the effectiveness of the design or operation of an internal structure policy or procedures. Normally, audit sampling is used for tests of controls that involve inspection of documents and reports indicating performance of the policy or procedures and, in many cases, re-performance of the application of the policy or procedures. These sampling procedures test the operating effectiveness of an internal control structure policy or procedures by determining how the policy or procedure was applied, the consistency with which it was applied during the audit period.

To achieve this goal, we assess the risk of fraud, significant audit areas, and internal control weaknesses to direct our need for sampling of a specific audit area. Your strengths and weaknesses will determine the sample size.

Extent of EDP Software

Our traditional approach is to "audit around" the computer, which means that we verify output by agreeing it, through our audit tests, with corresponding source input transactions. We do not choose to use audit software that runs through the District's computer system, such as a test deck. We do use computers in the field, with CaseWare and IDEA audit software, for financial statement preparation, analytical procedures, and data analysis. Like other aspects of the internal control structure, computer controls are documented in our memoranda and questionnaires. We will consider whether specialized skills are needed to consider the effect of computer processing on the audit, to understand the internal control structure policies and procedures or to design and perform audit procedures. The decision to use a computer

7. SPECIFIC AUDIT APPROACH (Continued)

specialist in audit planning is a matter of our professional judgment. We will consider the complexity of the computer system and assess whether we can identify the types of misstatements that might occur.

Analytical Procedures

We use analytical procedures throughout our audit testing. Analytical procedures, such as current year to prior year and budget to actual, allow us to easily identify any unusual items or inconsistencies in your financial reporting. Analytical procedures are also used as an overall review of the financial information in the preliminary and final stages of the audit. These procedures are designed to assist us in planning our audit and in assessing the propriety of the conclusions reached and in the evaluation of the overall financial statement presentation. The procedures to be utilized consist of determining percentage increases and decreases between significant revenue, expenditure and balance sheet accounts, reading the financial statements and related notes, and we focus on overall relationships within the financial statements. Once determined, these are reviewed to determine if the changes appear reasonable or require further analysis. For all significant differences, explanations are obtained as to why the situation occurred and additional substantive procedures may be applied and related evidence gathered to resolve concerns and questions.

Approach to Understanding the District's Internal Control Structure

To gain an understanding of the District's internal control structure, we will perform procedures as required by the Auditing Standards, primarily SAS 104-111. This will include completing forms taken from the Local Government Publication of Practitioners Publishing Company. These forms meet the technical standards of the AICPA and allow us to document the major transaction classes, purpose of funds, the structure of the District and to quantify materiality. We will review and make recommendations on the internal control structure, which consists of Control Environment, Accounting System and Control Procedures. We will review internal controls in the area of cash; investments; revenues and receivables; expenditures and accounts payable; payroll; inventories; property and equipment, debt and debt service; insurance and claims. In addition, we will review areas of internal controls over federal grants, including general requirements; specific requirements; claims for advances and reimbursements and amounts claimed or used for matching. Based on the result of our review, we will issue a formal internal control report (SAS 115 Letter) that will identify any significant deficiencies and or material weaknesses. This report is required by the *Government Auditing Standards* issued by the Comptroller General of the United States, as well as the Single Audit Act. In addition, we will also issue a separate communication letter directly to the board of directors. This letter would communicate any significant deficiencies or material weaknesses in the internal control system and other matters that we feel should be communicated to the board. All internal control issues will initially also be discussed with management of the Moulton Niguel Water District.

Approach to Determining Laws and Regulations Subject to Audit

The Laws and Regulations that will be subject to audit test work are determined from the code of the District (we would ask for access to a volume of the Code during our fieldwork), applicable sections of the Governmental Code for the State of California and our extensive experience with Water Districts. In addition, we will assess new laws and regulations passed throughout the year and convey those, when material to the District, to the District's

7. SPECIFIC AUDIT APPROACH (Continued)

Management. Material compliance requirements of laws and regulations will be reviewed and any deficiencies with those laws and regulations will be reported directly to the Board of Directors.

Drawing on Sample Sizes

For the purpose of tests of controls and tests of compliances with laws and regulations, we use audit sampling. Tests of controls are procedures directed towards determining the effectiveness of the design or operation of an internal structure policy or procedures. Normally, audit sampling is used for tests of controls that involve inspection of documents and reports indicating performance of the policy or procedures and, in many cases, reperformance of the application of the policy or procedures. These sampling procedures test the operating effectiveness of an internal control structure policy or procedures by determining how the policy or procedure was applied, the consistency with which it was applied during the audit period, and by whom it was applied.

To achieve this goal, we draw samples in the area of disbursements, receipts, utility billing and payroll. Each document selected will be tested for various attributes that are designed to verify compliance with different aspects of internal controls. Additionally, each sample item will be tested for coding to the proper accounts and posting to the general ledger.

The District's financial employees will be asked to assist us in gather the information we require to complete our audit in accordance with our audit approach.

The District's transition to a new auditor needs to be efficient and accurate. Before the audit we will verify the accuracy of our account classifications and the grouping of the accounting in the financial statements to ensure that the financial statements produced in the first year are consistent with the prior year. We will be reviewing the financial calculations of the prior auditor to alleviate the District's financial employees from needing to re-create specific calculations of assumptions.

#5.**8. COST PROPOSAL**

Service	OPTION YEARS									
	2013-14		2014-15		2015-16		2016-17		2017-18	
	Hours	Costs	Hours	Costs	Hours	Costs	Hours	Costs	Hours	Costs
District Audit	207	\$30,905	207	\$31,523	207	\$32,154	207	\$32,797	207	\$33,453
PFC Audit	19	2,710	19	2,764	19	2,819	19	2,876	19	2,933
Tax Returns	14	2,300	14	2,346	14	2,393	14	2,441	14	2,490
GANN Limit	3	435	3	444	3	453	3	462	3	471
State Controller's Report	9	1,490	9	1,520	9	1,550	9	1,581	9	1,613
Investment Compliance Review	6	1,025	6	1,046	6	1,066	6	1,088	6	1,109
TOTAL	258	\$38,865	258	\$39,642	258	\$40,435	258	\$41,244	258	\$42,069

District Audit	OPTION YEARS									
	2013-14		2014-15		2015-16		2016-17		2017-18	
	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates
Partners	16	\$ 280	16	\$ 286	16	\$ 291	16	\$ 297	16	\$ 303
Managers	25	185	25	189	25	192	25	196	25	200
Supervisory Staff	70	140	70	143	70	146	70	149	70	152
Staff	96	125	96	128	96	130	96	133	96	135
Clerical	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Travel and other	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	207		207		207		207		207	

PFC Audit	OPTION YEARS									
	2013-14		2014-15		2015-16		2016-17		2017-18	
	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates
Partners	1	\$ 280	1	\$ 286	1	\$ 291	1	\$ 297	1	\$ 303
Managers	2	185	2	189	2	192	2	196	2	200
Supervisory Staff	4	140	4	143	4	146	4	149	4	152
Staff	12	125	12	128	12	130	12	133	12	135
Clerical	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Travel and other	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	19		19		19		19		19	

Tax Returns	OPTION YEARS									
	2013-14		2014-15		2015-16		2016-17		2017-18	
	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates
Partners	2	\$ 280	2	\$ 286	2	\$ 291	2	\$ 297	2	\$ 303
Managers	4	185	4	189	4	192	4	196	4	200
Supervisory Staff	-	140	-	143	-	146	-	149	-	152
Staff	8	125	8	128	8	130	8	133	8	135
Clerical	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Travel and other	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	14		14		14		14		14	

8. COST PROPOSAL (Continued)

GANN Limit	OPTION YEARS									
	2013-14		2014-15		2015-16		2016-17		2017-18	
	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates
Partners	-	\$ 280	-	\$ 286	-	\$ 291	-	\$ 297	-	\$ 303
Managers	1	185	1	189	1	192	1	196	1	200
Supervisory Staff	-	140	-	143	-	146	-	149	-	152
Staff	2	125	2	128	2	130	2	133	2	135
Clerical	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Travel and other	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	3		3		3		3		3	

State Controller's Report	OPTION YEARS									
	2013-14		2014-15		2015-16		2016-17		2017-18	
	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates
Partners	1	\$ 280	1	\$ 286	1	\$ 291	1	\$ 297	1	\$ 303
Managers	2	185	2	189	2	192	2	196	2	200
Supervisory Staff	6	140	6	143	6	146	6	149	6	152
Staff	-	125	-	128	-	130	-	133	-	135
Clerical	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Travel and other	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	9		9		9		9		9	

Investment Compliance Review	OPTION YEARS									
	2013-14		2014-15		2015-16		2016-17		2017-18	
	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates	Hours	Rates
Partners	1	\$ 280	1	\$ 286	1	\$ 291	1	\$ 297	1	\$ 303
Managers	1	185	1	189	1	192	1	196	1	200
Supervisory Staff	4	140	4	143	4	146	4	149	4	152
Staff	-	125	-	128	-	130	-	133	-	135
Clerical	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Travel and other	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	6		6		6		6		6	

#5.

9. CONFLICT OF INTEREST STATEMENT

Lance, Soll & Lunghard, LLP and all assigned key professional staff do not have personal or organizational conflicts of interest that are prohibited by law and/or by the Moulton Niguel Water District Conflict of Interest Policy. I will notify the Board of Directors of the Moulton Niguel Water District immediately if there are any changes that could appear to represent a conflict of interest.

The person whose signature appears below is authorized to sign this assurance.

Signature of Authorized Official 	Date 2/21/2014
Name and Title of Authorized Official Deborah A. Harper, Partner	

10. EXTERNAL QUALITY CONTROL REVIEW REPORT

R.H. JOHNSTON ACCOUNTANCY INC.

A Professional Corporation
21300 Victory Boulevard, Suite 750
Woodland Hills, California 91367
(818) 346-9800
Fax (818) 346-0609

#5.

System Review Report

October 28, 2010

To the Partners of Lance, Soll & Lunghard, LLP
and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Lance, Soll & Lunghard, LLP (the firm) in effect for the year ended May 31, 2010. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, and an audit of employee benefit plan.

In our opinion, the system of quality control for the accounting and auditing practice of Lance, Soll & Lunghard, LLP in effect for the year ended May 31, 2010, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Lance, Soll & Lunghard, LLP has received a peer review rating of *pass*.

R.H. Johnston Accountancy Inc.



CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
2/13/2014

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER The Liberty Company Insurance Brokers, Inc. CA License No. 0D79653 111 Pacifica Suite #220 Irvine CA 92618	CONTACT NAME: Kathy Jesser PHONE (A/C No. Ext): (949) 777-0570 FAX (A/C No): (866) 294-8475	
	E-MAIL ADDRESS: kjesser@libertycompany.com	
INSURED Lance Soll & Lunghard LLP 203 N. Brea Blvd., #203 Brea CA 92821	INSURER(S) AFFORDING COVERAGE	
	INSURER A: Continental Casualty Company	
	NAIC # 20443	
	INSURER B:	
	INSURER C:	
	INSURER D:	
INSURER E:		
INSURER F:		

COVERAGES **CERTIFICATE NUMBER: 2013-2014** **REVISION NUMBER:**


THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	GENERAL LIABILITY			B4025915835	4/1/2013	4/1/2014	EACH OCCURRENCE \$ 2,000,000
	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY						DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 300,000
	<input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR						MED EXP (Any one person) \$ 10,000
	GEN'L AGGREGATE LIMIT APPLIES PER:						PERSONAL & ADV INJURY \$ 2,000,000
	<input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PROJECT <input type="checkbox"/> LOC						GENERAL AGGREGATE \$ 4,000,000
							PRODUCTS - COMP/OP AGG \$ 4,000,000
							\$
	AUTOMOBILE LIABILITY			B4025915835	4/1/2013	4/1/2014	COMBINED SINGLE LIMIT (Ea accident) \$ 1,000,000
	<input type="checkbox"/> ANY AUTO			Hired & Non Owned Only			BODILY INJURY (Per person) \$
	<input type="checkbox"/> ALL OWNED AUTOS						BODILY INJURY (Per accident) \$
	<input checked="" type="checkbox"/> HIRED AUTOS						PROPERTY DAMAGE (Per accident) \$
	<input type="checkbox"/> SCHEDULED AUTOS						\$
	<input type="checkbox"/> NON-OWNED AUTOS						\$
A	<input checked="" type="checkbox"/> UMBRELLA LIAB			B4025915933	4/1/2013	4/1/2014	EACH OCCURRENCE \$ 1,000,000
	<input type="checkbox"/> EXCESS LIAB						AGGREGATE \$ 1,000,000
	<input type="checkbox"/> DED <input checked="" type="checkbox"/> RETENTION \$ 10,000						\$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY						WC STATUTORY LIMITS OTH-ER
	ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH)						E.L. EACH ACCIDENT \$
	If yes, describe under DESCRIPTION OF OPERATIONS below		N/A				E.L. DISEASE - EA EMPLOYEE \$
							E.L. DISEASE - POLICY LIMIT \$

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)
Re: Operations of the Named Insured as on file with the insurance carrier. Moulton Niguel Water District and its' directors, officers, employees and representatives are named as Additional Insured as respects General Liability per SB146932-E 06/11, which includes primary and non contributory wording and Waiver of Subrogation. ***As Required by Written Contract***

CERTIFICATE HOLDER

CANCELLATION

Moulton Niguel Water District Attn: Matt Collings, Assistant Gen Manage 27500 La Paz Road Laguna Niguel, CA 92677-3489	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.
	AUTHORIZED REPRESENTATIVE Rick Butts/MGOMEZ 



THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.
BLANKET ADDITIONAL INSURED – LIABILITY EXTENSION

This endorsement modifies insurance provided under the following:

BUSINESSOWNERS LIABILITY COVERAGE FORM

Coverage afforded under this extension of coverage endorsement does not apply to any person or organization covered as an additional insured on any other endorsement now or hereafter attached to this Policy.

1. ADDITIONAL INSURED – BLANKET VENDORS

ADDL INSD

WHO IS AN INSURED is amended to include as an additional insured any person or organization (referred to below as vendor) with whom you agreed, because of a written contract or agreement to provide insurance, but only with respect to "bodily injury" or "property damage" arising out of "your products" which are distributed or sold in the regular course of the vendor's business, subject to the following additional exclusions:

1. The insurance afforded the vendor does not apply to:
 - a. "Bodily injury" or "property damage" for which the vendor is obligated to pay damages by reason of the assumption of liability in a contract or agreement. This exclusion does not apply to liability for damages that the vendor would have in the absence of the contract or agreement;
 - b. Any express warranty unauthorized by you;
 - c. Any physical or chemical change in the product made intentionally by the vendor;
 - d. Repackaging, except when unpacked solely for the purpose of inspection, demonstration, testing, or the substitution of parts under instructions from the manufacturer, and then repackaged in the original container;
 - e. Any failure to make such inspections, adjustments, tests or servicing as the vendor has agreed to make or normally undertakes to make in the usual course of business, in connection with the distribution or sale of the products;
 - f. Demonstration, installation, servicing or repair operations, except such operations performed at the vendor's premises in connection with the sale of the product;
 - g. Products which, after distribution or sale by you, have been labeled or relabeled or used as a container, part or ingredient of any other thing or substance by or for the vendor; or
 - h. "Bodily injury" or "property damage" arising out of the sole negligence of the vendor for its

own acts or omission or those of its employees or anyone else acting on its behalf. However, this exclusion does not apply to:

- (1) The exceptions contained in Subparagraphs **d.** or **f.**; or
- (2) Such inspections, adjustments, tests or servicing as the vendor has agreed to make or normally undertakes to make in the usual course of business, in connection with the distribution or sale of the products.

2. This insurance does not apply to any insured person or organization, from whom you have acquired such products, or any ingredient, part or container, entering into, accompanying or containing such products.
3. This provision **2.** does not apply to any vendor included as an insured by an endorsement issued by us and made a part of this Policy.
4. This provision **2.** does not apply if "bodily injury" or "property damage" included within the "products-completed operations hazard" is excluded either by the provisions of the Policy or by endorsement.

2. MISCELLANEOUS ADDITIONAL INSUREDS

WHO IS AN INSURED is amended to include as an insured any person or organization (called additional insured) described in paragraphs **2.a.** through **2.h.** below whom you are required to add as an additional insured on this policy under a written contract or agreement but the written contract or agreement must be:

1. Currently in effect or becoming effective during the term of this policy; and
2. Executed prior to the "bodily injury," "property damage" or "personal and advertising injury," but

Only the following persons or organizations are additional insureds under this endorsement and coverage provided to such additional insureds is limited as provided herein:

a. Additional Insured – Your Work

That person or organization for whom you do work is an additional insured solely for liability

due to your negligence specifically resulting from your work for the additional insured which is the subject of the written contract or written agreement. No coverage applies to liability resulting from the sole negligence of the additional insured.

The insurance provided to the additional insured is limited as follows:

- (1) The Limits of Insurance applicable to the additional insured are those specified in the written contract or written agreement or in the Declarations of this policy, whichever is less. These Limits of Insurance are inclusive of, and not in addition to, the Limits of Insurance shown in the Declarations.
- (2) The coverage provided to the additional insured by this endorsement and paragraph **F.9.** of the definition of "insured contract" under **Liability and Medical Expenses Definitions** do not apply to "bodily injury" or "property damage" arising out of the "products-completed operations hazard" unless required by the written contract or written agreement.
- (3) The insurance provided to the additional insured does not apply to "bodily injury," "property damage," or "personal and advertising injury" arising out of the rendering or failure to render any professional services.

b. State or Political Subdivisions

A state or political subdivision subject to the following provisions:

- (1) This insurance applies only with respect to the following hazards for which the state or political subdivision has issued a permit in connection with premises you own, rent, or control and to which this insurance applies:
 - (a) The existence, maintenance, repair, construction, erection, or removal of advertising signs, awnings, canopies, cellar entrances, coal holes, driveways, manholes, marquees, hoistaway openings, sidewalk vaults, street banners, or decorations and similar exposures; or
 - (b) The construction, erection, or removal of elevators; or
- (2) This insurance applies only with respect to operations performed by you or on your behalf for which the state or political subdivision has issued a permit.

This insurance does not apply to "bodily injury," "property damage" or "personal and advertising injury" arising out of operations performed for the state or municipality.

c. Controlling Interest

Any persons or organizations with a controlling interest in you but only with respect to their liability arising out of:

- (1) Their financial control of you; or
- (2) Premises they own, maintain or control while you lease or occupy these premises.

This insurance does not apply to structural alterations, new construction and demolition operations performed by or for such additional insured.

d. Managers or Lessors of Premises

A manager or lessor of premises but only with respect to liability arising out of the ownership, maintenance or use of that specific part of the premises leased to you and subject to the following additional exclusions:

This insurance does not apply to:

- (1) Any "occurrence" which takes place after you cease to be a tenant in that premises; or
- (2) Structural alterations, new construction or demolition operations performed by or on behalf of such additional insured.

e. Mortgagee, Assignee or Receiver

A mortgagee, assignee or receiver but only with respect to their liability as mortgagee, assignee, or receiver and arising out of the ownership, maintenance, or use of a premises by you.

This insurance does not apply to structural alterations, new construction or demolition operations performed by or for such additional insured.

f. Owners/Other Interests – Land is Leased

An owner or other interest from whom land has been leased by you but only with respect to liability arising out of the ownership, maintenance or use of that specific part of the land leased to you and subject to the following additional exclusions:

This insurance does not apply to:

- (1) Any "occurrence" which takes place after you cease to lease that land; or





- (2) Structural alterations, new construction or demolition operations performed by or on behalf of such additional insured.

g. Co-owner of Insured Premises

A co-owner of a premises co-owned by you and covered under this insurance but only with respect to the co-owners liability as co-owner of such premises.

h. Lessor of Equipment

Any person or organization from whom you lease equipment. Such person or organization are insureds only with respect to their liability arising out of the maintenance, operation or use by you of equipment leased to you by such person or organization. A person's or organization's status as an insured under this endorsement ends when their written contract or agreement with you for such leased equipment ends.

With respect to the insurance afforded these additional insureds, the following additional exclusions apply:

This insurance does not apply:

- (1) To any "occurrence" which takes place after the equipment lease expires; or
- (2) To "bodily injury," "property damage" or "personal and advertising injury" arising out of the sole negligence of such additional insured.

Any insurance provided to an additional insured designated under paragraphs **b.** through **h.** above does not apply to "bodily injury" or "property damage" included within the "products-completed operations hazard."

3. The following is added to Paragraph H. of the BUSINESSOWNERS COMMON POLICY CONDITIONS:

H. Other Insurance

- 4. This insurance is excess over any other insurance naming the additional insured as an insured whether primary, excess, contingent or on any other basis unless a written contract or written agreement specifically requires that this insurance be either primary or primary and noncontributing.

4. LEGAL LIABILITY – DAMAGE TO PREMISES

- A.** Under B. Exclusions, 1. Applicable to Business Liability Coverage, Exclusion **k.**

Damage To Property, is replaced by the following:

k. Damage To Property

"Property damage" to:

- 1. Property you own, rent or occupy, including any costs or expenses incurred by you, or any other person, organization or entity, for repair, replacement, enhancement, restoration or maintenance of such property for any reason, including prevention of injury to a person or damage to another's property;
- 2. Premises you sell, give away or abandon, if the "property damage" arises out of any part of those premises;
- 3. Property loaned to you;
- 4. Personal property in the care, custody or control of the insured;
- 5. That particular part of any real property on which you or any contractors or subcontractors working directly or indirectly in your behalf are performing operations, if the "property damage" arises out of those operations; or
- 6. That particular part of any property that must be restored, repaired or replaced because "your work" was incorrectly performed on it.

Paragraph 2 of this exclusion does not apply if the premises are "your work" and were never occupied, rented or held for rental by you.

Paragraphs 1, 3, and 4, of this exclusion do not apply to "property damage" (other than damage by fire or explosion) to premises:

- (1) rented to you;
- (2) temporarily occupied by you with the permission of the owner, or
- (3) to the contents of premises rented to you for a period of 7 or fewer consecutive days.

A separate limit of insurance applies to Damage To Premises Rented To You as described in Section D – Liability and Medical Expenses Limits of Insurance.

PRIMARY WORDING

Paragraphs 3, 4, 5, and 6 of this exclusion do not apply to liability assumed under a sidetrack agreement.

Paragraph 6 of this exclusion does not apply to "property damage" included in the "products-completed operations hazard."

- B. Under B. Exclusions, 1. Applicable to Business Liability Coverage,** the last paragraph of 2. Exclusions is deleted and replaced by the following:

Exclusions **c, d, e, f, g, h, i, k, l, m, n, and o,** do not apply to damage by fire to premises while rented to you or temporarily occupied by you with permission of the owner or to the contents of premises rented to you for a period of 7 or fewer consecutive days. A separate limit of insurance applies to this coverage as described in **Section D. Liability And Medical Expenses Limits Of Insurance.**

- C. The first Paragraph under item 5. Damage To Premises Rented To You Limit of Section D. Liability And Medical Expenses Limits Of Insurance** is replaced by the following:

The most we will pay under Business Liability for damages because of "**property damage**" to any one premises, while rented to you, or temporarily occupied by you, with the permission of the owner, including contents of such premises rented to you for a period of 7 or fewer consecutive days, is the Damage to Premises Rented to You limit shown in the Declaration.

50020003540259158359732
WAIVER

5. Blanket Waiver of Subrogation

We waive any right of recovery we may have against:

- a.** Any person or organization with whom you have a written contract that requires such a waiver.

6. Broad Knowledge of Occurrence

The following items are added to **E. Businessowners General Liability Conditions** in the **Businessowners Liability Coverage Form:**

- e.** Paragraphs **a.** and **b.** apply to you or to any additional insured only when such "occurrence," offense, claim or "suit" is known to:
- (1) You or any additional insured that is an individual;

- (2) Any partner, if you or an additional insured is a partnership;
- (3) Any manager, if you or an additional insured is a limited liability company;
- (4) Any "executive officer" or insurance manager, if you or an additional insured is a corporation;
- (5) Any trustee, if you or an additional insured is a trust; or
- (6) Any elected or appointed official, if you or an additional insured is a political subdivision or public entity.

This paragraph **e.** applies separately to you and any additional insured.

7. Bodily Injury

Section **F. Liability and Medical Expenses Definitions,** item 3. "Bodily Injury" is deleted and replaced with the following:

"**Bodily injury**" means bodily injury, sickness or disease sustained by a person, including death, humiliation, shock, mental anguish or mental injury by that person at any time which results as a consequence of the bodily injury, sickness or disease.

8. Expanded Personal and Advertising Injury Definition

- a.** The following is added to **Section F. Liability and Medical Expenses Definitions, item 14. Personal and Advertising Injury, in the Businessowners General Liability Coverage Form:**
- h.** Discrimination or humiliation that results in injury to the feelings or reputation of a natural person, but only if such discrimination or humiliation is:
1. Not done intentionally by or at the direction of:
- a.** The insured; or
- b.** Any "executive officer," director, stockholder, partner, member or manager (if you are a limited liability company) of the insured; and
2. Not directly or indirectly related to the employment, prospective employment, past employment or termination of employment of any person or person by any insured.
- b.** The following is added to Exclusions, **Section B.:**



(15) Discrimination Relating to Room, Dwelling or Premises

Caused by discrimination directly or indirectly related to the sale, rental, lease or sub-lease or prospective sale, rental, lease or sub-lease of any room, dwelling or premises by or at the direction of any insured.

(16) Fines or Penalties

Fines or penalties levied or imposed by a governmental entity because of discrimination.

- c. This provision (**Expanded Personal and Advertising Injury**) does not apply if

Personal and Advertising Injury Liability is excluded either by the provisions of the Policy or by endorsement.

9. Personal and Advertising Injury Re-defined

Section F. Liability and Medical Expenses Definitions, item 14, Personal Advertising Injury, Paragraph c. is replaced by the following:

- c. The wrongful eviction from, wrongful entry into, or invasion of the right of private occupancy of a room dwelling or premises that a person or organization occupies committed by or on behalf of its owner, landlord or lessor.



CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)

02/13/2014

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER CHUCK HYNEMAN 18371-A LEMON DRIVE YORBA LINDA CA 92886	CONTACT NAME: CHUCK HYNEMAN PHONE (A/C, No, Ext): 714-777-9823 E-MAIL ADDRESS:	FAX (A/C, No): 714-777-9898	
	INSURER(S) AFFORDING COVERAGE		
INSURED Kikuchi, Richard (Gen Partner) and Hale, David (Gen Partner) DBA: Lance, Soll & Lunghard, LLP 203 N Brea Blvd#203 Brea CA 92821	INSURER A : TRUCK INSURANCE EXCHANGE		NAIC # 21709
	INSURER B :		
	INSURER C :		
	INSURER D :		
	INSURER E :		
	INSURER F :		

COVERAGES

CERTIFICATE NUMBER:

REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
	GENERAL LIABILITY <input type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC						EACH OCCURRENCE	\$
							DAMAGE TO RENTED PREMISES (Ea occurrence)	\$
							MED EXP (Any one person)	\$
							PERSONAL & ADV INJURY	\$
							GENERAL AGGREGATE	\$
							PRODUCTS - COMP/OP AGG	\$
								\$
	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> NON-OWNED AUTOS						COMBINED SINGLE LIMIT (Ea accident)	\$
							BODILY INJURY (Per person)	\$
							BODILY INJURY (Per accident)	\$
							PROPERTY DAMAGE (Per accident)	\$
								\$
	UMBRELLA LIAB <input type="checkbox"/> EXCESS LIAB <input type="checkbox"/> OCCUR <input type="checkbox"/> CLAIMS-MADE DED RETENTION \$						EACH OCCURRENCE	\$
							AGGREGATE	\$
								\$
A	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	Y/N	N/A	A2009 84 07	10/01/2013	10/01/2014	<input checked="" type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTHER	E.L. EACH ACCIDENT \$ 1,000,000 E.L. DISEASE - EA EMPLOYEE \$ 1,000,000 E.L. DISEASE - POLICY LIMIT \$ 1,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

CERTIFICATE HOLDER

CANCELLATION

[Empty space for Certificate Holder Name]	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.
	AUTHORIZED REPRESENTATIVE



CERTIFICATE OF LIABILITY INSURANCE

#5.
DATE (MM/DD/YYYY),
02/14/2014

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER Lockton Affinity, LLC P.O. Box 410679 Kansas City, MO 64141-0679		CONTACT NAME: PHONE (A/C, No, Ext): 866-386-2544 E-MAIL ADDRESS: INSURER(S) AFFORDING COVERAGE INSURER A : Navigators Insurance Company INSURER B : INSURER C : INSURER D : INSURER E : INSURER F :		FAX (A/C, No): NAIC# 42307
INSURED Lance, Soll & Lunghard, LLP 203 N. Brea Blvd. # 203 Brea, CA 92821				

COVERAGES CERTIFICATE NUMBER: REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
	GENERAL LIABILITY <input type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC						EACH OCCURRENCE \$ DAMAGE TO RENTED PREMISES (Ea occurrence) \$ MED EXP (Any one person) \$ PERSONAL & ADV INJURY \$ GENERAL AGGREGATE \$ PRODUCTS - COMP/OP AGG \$ \$
	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> NON-OWNED AUTOS						COMBINED SINGLE LIMIT (Ea accident) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$
	UMBRELLA LIAB <input type="checkbox"/> OCCUR EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE DED RETENTION \$						EACH OCCURRENCE \$ AGGREGATE \$ \$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below						<input type="checkbox"/> Y <input type="checkbox"/> N N/A WC STATUTORY LIMITS OTH-ER E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEES E.L. DISEASE - POLICY LIMIT \$
A	Professional Liability Claims Made Policy			PH13APLOA5U0CNV	10/12/2013	10/12/2014	Each Claim \$3,000,000 Aggregate \$3,000,000 Deductible \$25,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

CERTIFICATE HOLDER

CANCELLATION

Moulton Niguel Water District 27500 La Paz Road Laguna Niguel, CA 92677-3489	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE
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