

**PROFESSIONAL SERVICES AGREEMENT FOR INDEPENDENT AUDITING SERVICES
BETWEEN MOULTON NIGUEL WATER DISTRICT AND
VAVRINEK, TRINE, DAY & COMPANY, LLP
CONTRACT NO. OM15-16.058**

THIS AGREEMENT (the "Agreement") is dated as of _____, 2016 (the "Effective Date"), by and between Vavrinek, Trine, Day & Company, 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 his/her designee. All directives, instructions, or other communications from MNWD to AUDITOR shall be through only the Controller, or his/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**.

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. Auditor's Controller shall serve as the 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 audit reports, opinions 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 Agreement amount of **One Hundred TwentyFive-Nine Thousand Two Hundred Thirty Dollars (\$1529,230)**. The breakdown of the rates and fees for the Services is attached hereto as **Exhibit B - Fee Schedule**, which is incorporated herein. Notwithstanding the foregoing, the total compensation for Services to be paid for each Fiscal Year audit, shall not exceed the following amounts: **FortyFifty-Two Thousand Six Hundred Fifty (\$542,650)** for Fiscal Year 2015-16 Services; **FortyFifty-Two Thousand Six Hundred Fifty (\$542,650)** for Fiscal Year 2016-17 Services; and **FortyFifty-Three Thousand Nine Hundred Thirty Thousand (\$543,930)** for Fiscal Year 2017-18 Services.

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 the Effective Date and shall terminate on **December 30, 2018** or upon completion of audit services for fiscal years ending June 30, 2016 through June 30, 2018, 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 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 either party provided that no such termination may be effected unless the other party is given not less than ten (10) calendar day's written notice of 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

To AUDITOR - Attn: Roger Alfaro, Partner
Vavrinek, Trine, Day & Company, LLP
25231 Paseo De Alicia, Suite 100
Laguna Hills, CA 92653

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 and not an employee of MNWD while engaged in carrying out this Agreement. 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 as of the Effective Date as defined herein.

Moulton Niguel Water District

By: _____
Joone Lopez
General Manager

Vavrinek, Trine, Day & Co., LLP

By: _____
Title: _____

Exhibit A – Scope of Work

A. Project Management

VTD provides auditing services to a variety of governmental agencies throughout the State of California. The key to our success is to structure our audit teams with a designated project audit manager and project audit partner to maintain ultimate responsibility for timely completion of the audits. During the planning phase of the audit, VTD will work with the District to complete a matrix in order to map out all of the significant dates for the provision of service including key contacts, fieldwork entrance and exit dates, deliverable dates, report review dates, final due dates, and District Council presentation dates. By preparing a comprehensive matrix for each report, all the information regarding the timing of the audits and various projects is documented in one central location and is agreed upon between the auditor and the District. The timeline will then only be modified through communication between VTD and the District.

B. Complete Work Plan/Project Description

Overview of the Audits

As required by the Request for Proposal our audit plan covers the engagements for:

- Financial and Compliance Audit of the District's CAFR, with option for auditor preparation of CAFR
- Single Audit, assuming one major program, as applicable
- Perform agreed upon procedures on the District's GANN Limit Calculation
- Option to prepare and transmit the Special Districts Financial Transaction Report to the State Controller's Office
- Prepare Form 990 – Return of Organization Exempt from Income tax and Form 199 – California Exempt Organization Annual Information Return
- Financial and Compliance Audit of the Public Facilities Corporation (PFC), with option for auditor preparation of the financial statements

The audits will be conducted in accordance with generally accepted auditing standards issued by the American Institute of Certified Public Accountants (AICPA), *Governmental Auditing Standards* published by the Comptroller General of the United States, and the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133.

Level of staff and number of hours assigned to each segment

	Pre-Audit Planning	Interim Audit	Final Audit	Total
Partner	2	13	17	32
Manager	4	29	40	73
Supervisor	4	34	48	86
Senior	5	36	49	90
Staff	4	28	39	71
Paraprofessional	-	3	4	7
Total	19	143	197	359

Exhibit A – Scope of Work

B. Complete Work Plan/Project Description, (Continued)

Audit Hours by Area

	Partner	Manager	Supervisor	Senior	Staff	Clerical	Total
1. Moulton Niguel Water District CAFR Audit	22	48	60	52	48	-	230
2. Optional: Preparation of District CAFR	3	5	16	8	2	2	36
3. Single Audit report (Compliance Audit) - assumes 1 major program	2	4	-	8	8	1	23
4. Appropriations Limit (GANN) Agreed-upon Procedures	1	1	-	-	3	1	6
5. Optional: Special Districts Financial Transaction Report to SCO (preparation and submittal)	1	4	10	-	-	1	16
6. Prepare Form 990 and Form 199	1	5	-	8	4	1	19
7. Financial and Compliance Audit of the Public Facilities Corporation (PFC)	1	4	-	8	6	-	19
8. Optional: Preparation of PFC financial statements	1	2	-	6	-	1	10
Totals	32	73	86	90	71	7	359

C. Our Proposed Audit Plan

Our engagement approach for the Moulton Niguel Water District audit has well-detailed goals by which the engagement partner can measure progress. Our audit plan includes frequent contact between the partner and the engagement team to assure that objectives are attained according to the audit schedules and that problems are communicated and dealt with on a timely basis. Our engagement approach benefits from our long accumulated experience during which our firm has identified key areas of financial and accounting concern in the audit process. More importantly, the approach provides for a complete reassessment of the management and control environment in each year's audit and thus is capable of responding to changes and will ensure that deadlines are met in issuing the annual financial statements.

The key characteristics of our engagement approach are:

- *Knowledge of the Moulton Niguel Water District and similar entities.* We have extensive experience auditing governmental entities similar to the District. This experience enables us to perform a more efficient audit and identify key audit risks.
- *Cost-effectiveness.* Our experienced auditors' low percentage of turnover reduce your cost
- *Timeliness.* We take deadlines, both yours and ours, seriously.
- *Partner-manager involvement.* Deciding on audit strategies requires seasoned judgment. Our partners and managers have been heavily and continuously involved in governmental audits. Furthermore, you will be able to consult with senior team members whenever needed throughout the year. We are available during the year for any additional consultation that may arise and specified in the request for proposal.

Exhibit A – Scope of Work

C. Our Proposed Audit Plan, (Continued)

Project Management – Overall Audit

Our audit plan for each of the fiscal years involves six (6) stages for each audit. These stages are:

- Stage 1, Planning
- Stage 2, Risk Assessment
- Stage 3, Preparation of the Overall Audit Plan
- Stage 4, Conducting the Interim Audit
- Stage 5, Conducting the Final Audit
- Stage 6, Reporting

These stages will be applied to the District's CAFR audit as well as the other audits. The audit approach will be tailored to the risk of each individual entity and the scale will also be adjusted as necessary to ensure that each entity's financial statements are fairly stated.

Stage 1, Planning

VTD will meet with key staff to plan the audit services for the year. These meetings will discuss all audit issues and the proposed interim work plan. During this phase, we will accomplish:

- Identifying the key personnel and contacts in the Finance Department and other departments.
- Identify the Moulton Niguel Water District significant classes of transactions and business processes.
- Obtain an understanding of audit risk areas.
- Developing an understanding of unusual transactions or events that have occurred during the fiscal year.
- Formalizing logistics.
- Finalizing the timeframes for interim fieldwork.

Stage 2, Risk Assessment

Based upon the information obtained in the planning meetings VTD will perform a risk assessment as required by Statements on Auditing Standards (SAS) to be used in the preparation of the overall audit plan. As part of this risk assessment we will perform the following:

1. Obtain an understanding of the entity and its environment and its risks and material compliance requirements. VTD will refer to the Moulton Niguel Water District's prior year Comprehensive Annual Financial Report, annual budget document, other relevant documentation to assist with our understanding of the Moulton Niguel Water District's business environment and risks. VTD will also conduct inquiry with key individuals within the Moulton Niguel Water District who are responsible for executing the Moulton Niguel Water District's strategic plan.

Exhibit A – Scope of Work

C. Our Proposed Audit Plan, (Continued)

Stage 2, Risk Assessment, (Continued)

2. Obtain an understanding of the entity's internal controls. VTD will refer to the Moulton Niguel Water District's organizational charts, budget, written policies and procedures, financial accounting systems to assist with our understanding of internal controls. VTD will also perform inquiry, observation, inspection, and walk-throughs of key internal controls to ensure these key controls are properly designed and implemented. Key internal control cycles include –
 - Revenue Collection/Billing
 - Procurement / Cash Disbursements
 - Investment management
 - Debt management
 - Financial reporting
 - Year end closing
 - Budgeting
 - Risk management
 - Human Resources / Payroll
 - IT Controls, relating to all aspects of the audit
 - User access
 - Security
 - Backup and recovery
 - System interfaces
 - Fraud Prevention Programs
 - Grants Management
3. Preliminary analytical review, determination of preliminary materiality levels.
4. Analysis of known misstatements, if any.
5. Consideration of risk of material misstatement at the individual account balance, class of transactions and disclosure level.
6. Assessing the risks of material misstatement at both the financial statement and relevant assertion levels.
7. Assess the risk of material noncompliance with laws and regulations that have a direct and material effect on the financial statements.
8. Evaluation of the District's information technology and general information technology controls.

Stage 3, Preparation of the Overall Audit Plan

Once the planning and risk assessment process are complete an overall audit plan will be prepared. The plan will specify each audit task, staffing assignments, timelines, and due dates. The plan will also break down the work assignments between interim and final audit timelines. The audit plan will include the transaction cycles which have been selected for internal control testing and those for which only the detailed walk through will be performed.

We will also prepare:

The preliminary materiality guidelines, the audit programs, including consideration of:

- Identification of areas where special audit considerations are necessary.
- Design of further audit procedures to reduce risk if considered necessary.
- The development of expectations for a nalytical procedures, timelines, and assignment of all audit responsibilities.

Exhibit A – Scope of Work

C. Our Proposed Audit Plan, (Continued)

Stage 4, the Interim Audit

Our interim fieldwork dates will normally occur during the April - May timeframe. The specific weeks will be determined during the planning meeting and preparation of the audit plan process.

We will obtain an understanding of the design and implementation of the financial reporting system to understand the follow of information for:

1. Each class of transactions that is significant to the financial statements.
2. The procedures within both automated and manual systems, by which those transactions are initiated, authorized, recorded, processed, and reported in the financial statements.
3. The related accounting records, whether in electronic or manual supporting information, and specific accounts in the financial statements involved in initiating, authorizing, recording, processing and reporting transactions.
4. How the information systems captures events and conditions other than classes of transactions that are significant to the financial statements.
5. The financial reporting process used to prepare the Moulton Niguel Water District's financial statements, including significant accounting estimates and disclosures.

We will also review and discuss with the District the draft Schedule of Expenditures of Federal Awards to determine if a Single Audit will be required each fiscal year. If required, we will perform our risk assessment and selection of major program(s), as required under the Uniform Grant Guidance and OMB Circular A-133.

Stage 5, the Final Audit

We will commence our final fieldwork as soon as Moulton Niguel Water District has sufficiently closed their accounting records. We expect final fieldwork to commence in late August to early September.

During this phase, we will perform substantive audit procedures on the year-end statement of net position and revenue and expense accounts. We will use a variety of audit procedures which may include outside confirmations, statistical sampling, and detailed testing of schedules, analytical review, inquiry, and observation.

Additionally, VTD will prepare the financial statements for the CAFR or PFC, as required, during this phase of the audit. If a Single Audit is required, testwork for the major program(s) would run concurrently with the final audit fieldwork.

Exhibit A – Scope of Work

C. Our Proposed Audit Plan, (Continued)

Stage 6, the Reporting Phase

At the end of the audit process we will meet with key staff to cover the following:

- Discuss improvements for subsequent years audit plan.
- Meet with the District Board of Directors to present the results of the audit, if required.
- Communicate with those charged with governance.
- We will prepare Draft Audit Reports with management letter comments, and provide to management prior to the agreed upon issuance date.
- We will prepare Final Draft Audit Reports and management letter comments for presentation to the District prior to the agreed upon issuance date.
- Significant deficiencies and material weaknesses (if any) identified during the course of the audit. AU-C 265 requires written communication to management and those charged with governance, of significant deficiencies or material weaknesses, identified during the audit.
- Other matters that we believe to be of potential benefit to the management of the Moulton Niguel Water District, such as recommendations for operational or administrative efficiency, or for improving existing internal controls.

Communication

We do not believe in surprises. Although the reporting phase involves a recap of the process we will be in constant communication regarding the each aspect of the audit throughout the entire process. You will not have any surprises at the end of the audit.

D. Our Proposed Plan For the GANN Limit Calculation, Tax Return and State Controller’s Report, and Single Audit

We have experience providing Appropriations Limit testwork as outlined in the request for proposal. These procedures will be performed in conjunction with the audit phases described above, including the interim and final phases (Stages 4 and 5).

Our tax specialists will assist in the preparation of the Form 990 with a timeline established as required by the District.

The Special Districts Financial Transaction Report will be prepared (if required) during the final phase of the audit (Stage 5).

E. Use of Computer Assisted Auditing Techniques Software in the Engagement

The key members assigned to the District’s engagement team are experienced in working with municipal information systems such as SunGard, Oracle, PeopleSoft, IFAS, SAP, Great Plains, EDEN, and HARRIS Utility Billing systems. Therefore minimal amounts of District time would be necessary to train our team in how to most efficiently access District transactions and documents for the audit.

Exhibit A – Scope of Work

F. Identification of Potential Audit Issues

We do not anticipate problems within the audit. However, if audit issues are encountered, our process would include meeting with the District's management to develop the appropriate response, and identify any special assistance that will be requested from the District.

We have however identified the following areas that we believe that we can be of assistance.

- GASB Standard Implementations – GASB 72-79 will be required to be implemented during the contract term.
- Single Audits – Uniform Grant Guidance has been issued and is effective for the District for grants awarded after December 26, 2014.

Approach in Addressing New GASBs

The District will be required to implement various GASB statements during the term of the contract. These accounting pronouncements impact the reporting of several areas including Fair Value for Investments, Investments in External Pools, Other Postemployment Benefits (OPEB), Pensions, and Tax Abatement Disclosures.

We understand that GASB implementations can be difficult and challenging. Therefore we believe in taking a team approach and performing proactive planning to ensure that new GASB Standards are implemented timely and correctly. This starts during the planning and interim phase of the audit and sitting down with management and discussing the potential impacts of the GASB standard and the documentation and information needed to implement. We will assist throughout the process as needed in providing technical guidance regarding the impacts of the change in standards to ensure new standards are successfully captured in the financial statements.

G. Engagement Timeline:

Audit Milestones*

Planning Meeting (Stage 1)
Audit Planning (Stage 2 and 3)
Interim Fieldwork (Stage 4)
Fiscal Year-End Work (Stage 5)
Deliver Draft Auditors' Report (Stage 6)
Deliver Final Reports

1. Moulton Niguel Water District CAFR Audit	
	March
	April
	April - May
	August - September
	mid-November
	mid-December

* The above timeline would be followed for the Single Audit, GANN AUP, State Controller's Report, Tax Return, and PFC audit

H. Internal Control Reviews – Agreed Upon Procedures

In addition to audit services, VTD assists many of its clients with other attest services, including but not limited to, agreed upon procedure (AUP) engagements. With AUP engagements, the procedures may be customized to the concerns or specific risks of a particular subject matter. Accordingly, there is flexibility in the level of work, depth of scope and timeframes for performance of these

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Exhibit A – Scope of Work

engagements. Examples of the areas of scope may include, but are not limited to, expanded procedures over internal control processes in areas such as payroll, investments or cash disbursements, or testing of specific transaction types and account balances.

The District anticipates requesting AUP services in an amount not to exceed \$10,000 per annum.

Exhibit B – Fee Schedule

A. Audit Work Cost Proposal Form

Description of Services	Estimated Hours	Proposed Audit Fees			Optional Years	
		2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
1. Moulton Niguel Water District CAFR Audit	230	\$ 27,500	\$ 27,500	\$ 28,325	\$ 29,175	\$ 30,050
2. Optional: Preparation of District CAFR	36	4,500	4,500	4,635	4,774	4,917
3. Single Audit report (Compliance Audit) - assumes 1 major program ⁽¹⁾	23	2,500	2,500	2,575	2,652	2,732
4. Appropriations Limit (GANN) Agreed-upon Procedures	6	500	500	515	530	546
5. Optional: Special Districts Financial Transaction Report to SCO (preparation and submittal)	16	2,000	2,000	2,060	2,122	2,185
6. Prepare Form 990 and Form 199	19	2,450	2,450	2,524	2,599	2,677
7. Financial and Compliance Audit of the Public Facilities Corporation (PFC)	19	2,100	2,100	2,163	2,228	2,295
8. Optional: Preparation of PFC financial statements	10	1,100	1,100	1,133	1,167	1,202
Total for Fiscal Year (not-to-exceed)	359	\$ 42,650	\$ 42,650	\$ 43,930	\$ 45,247	\$ 46,604

⁽¹⁾ Additional major programs will be \$2,500 per program.

Exhibit B – Fee Schedule

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		2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
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8. Optional: Preparation of PFC financial statements	10	1,100	1,100	1,133	1,167	1,202
9. Internal Control Reviews - Agreed Upon Procedures ⁽²⁾	-	10,000	10,000	10,000	10,000	10,000
Total for Fiscal Year (not-to-exceed)	359	\$ 52,650	\$ 52,650	\$ 53,930	\$ 55,247	\$ 56,604

⁽¹⁾ Additional major programs will be \$2,500 per program
⁽²⁾ Scope will determined at a later date, including estimated hours to complete

QUOTED HOURLY RATES OF THE FIRM'S PROFESSIONALS:					
	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Partner	\$ 210	\$ 210	\$ 216	\$ 223	\$ 229
Manager	180	180	185	191	197
Supervisor	160	160	165	170	175
Senior	120	120	124	127	131
Staff	100	100	103	106	109
Paraprofessional	65	65	67	69	71



moulton niguel water district

BUDGET PROCESS UPDATE

Finance & IT Board Meeting

March 16, 2016

FY 2016-17 BUDGET GOALS

- Transition to annual budget
- Update integrated long-term financial planning
 - “10-year cashflow”, said Dir. Lizotte!!!
- Include current policy documents
- Earn GFOA Distinguished Budget Award



WORK TO DATE

- Developed framework to integrate budgeting and financial planning efforts
 - Developed ERP system import/export process
 - Developed new budget request process
 - Developed Long Range Financial Plan integration process

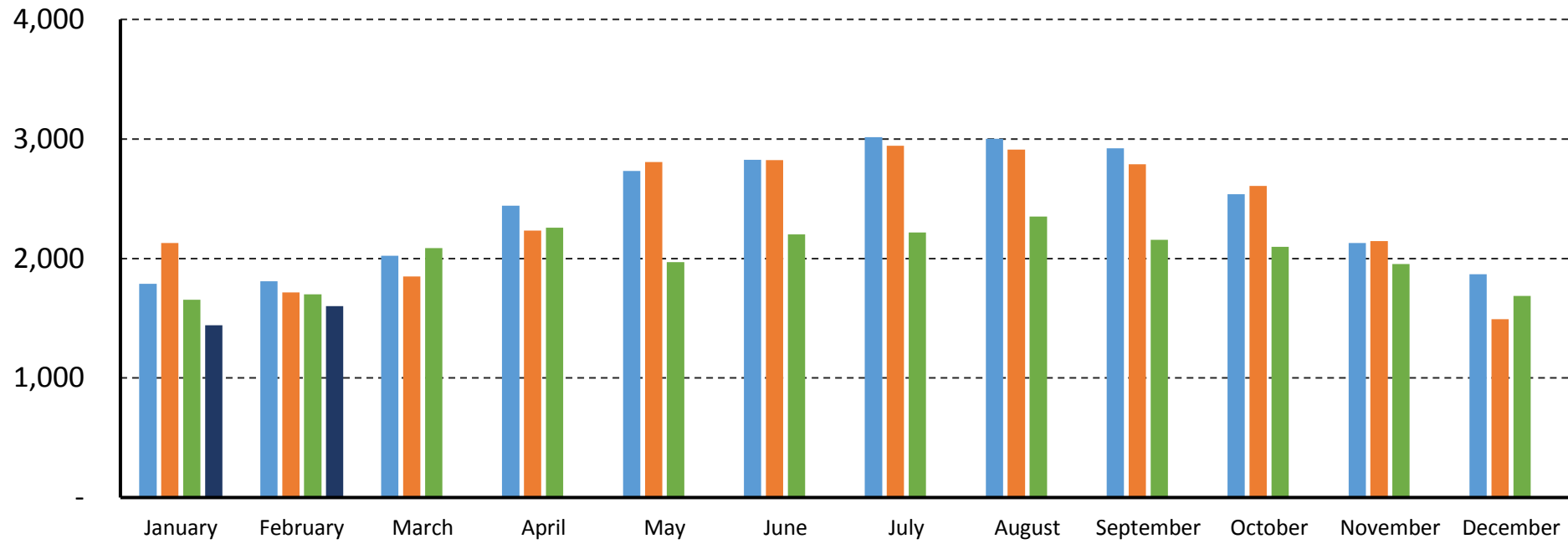


TIMELINE

- April Board Meeting – CIP Budget Review
- Early May – Board of Directors Budget Workshop
- May Board Meeting – Final Board Review
- June Board Meeting– Board Adoption

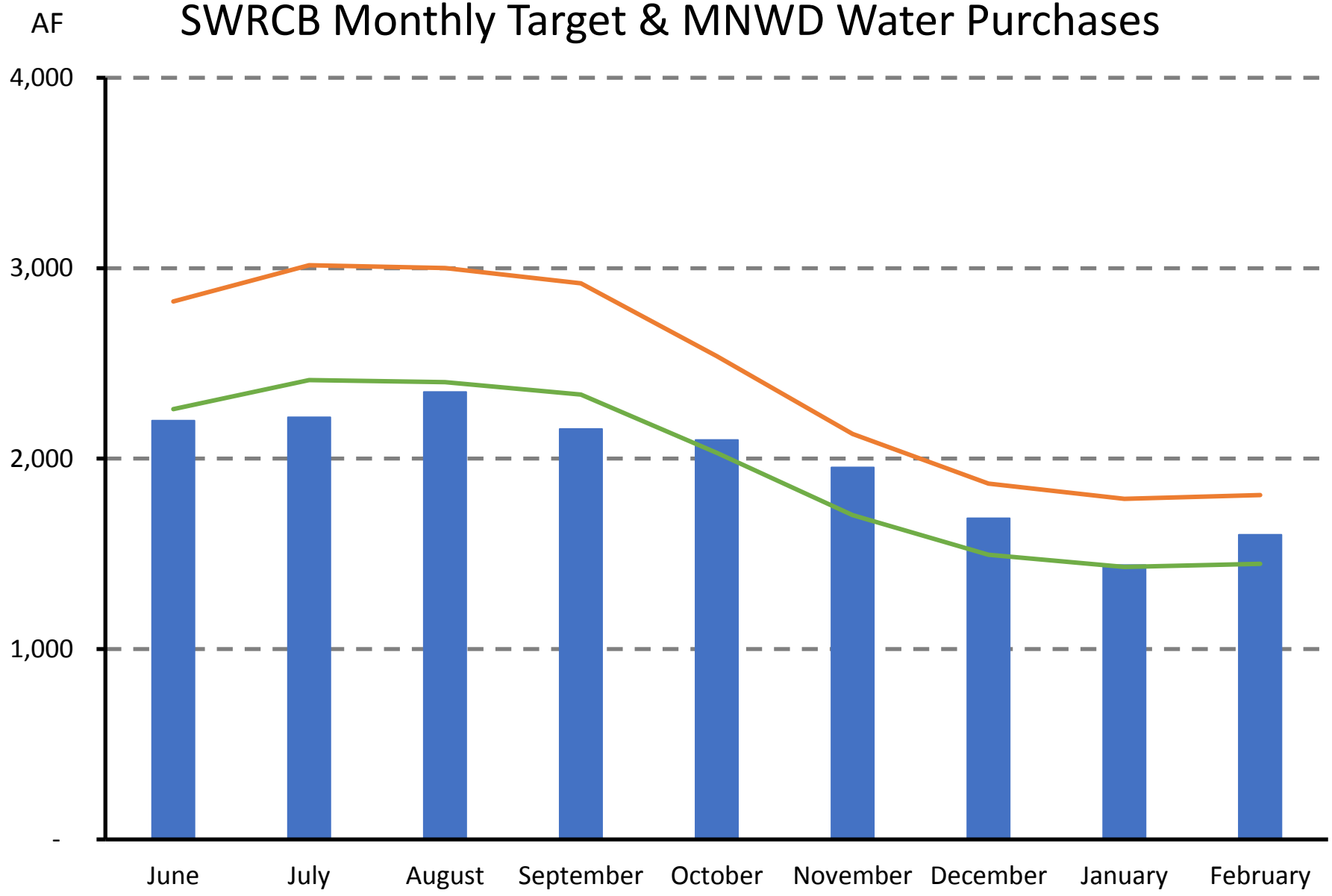


AF Historical Monthly MNWD Water Purchases & Evapotranspiration



Year	ET (Inches)											
2013	2.54	2.88	4.08	4.79	5.99	6.07	5.81	6.53	5.26	3.92	2.52	2.49
2014	2.82	2.64	4.09	5.54	6.39	6.45	6.54	6.23	5.21	3.94	3.16	1.91
2015	2.52	3.02	4.96	5.31	4.48	5.75	5.69	6.27	5	3.88	3.24	2.35
2016	1.87	3.82										

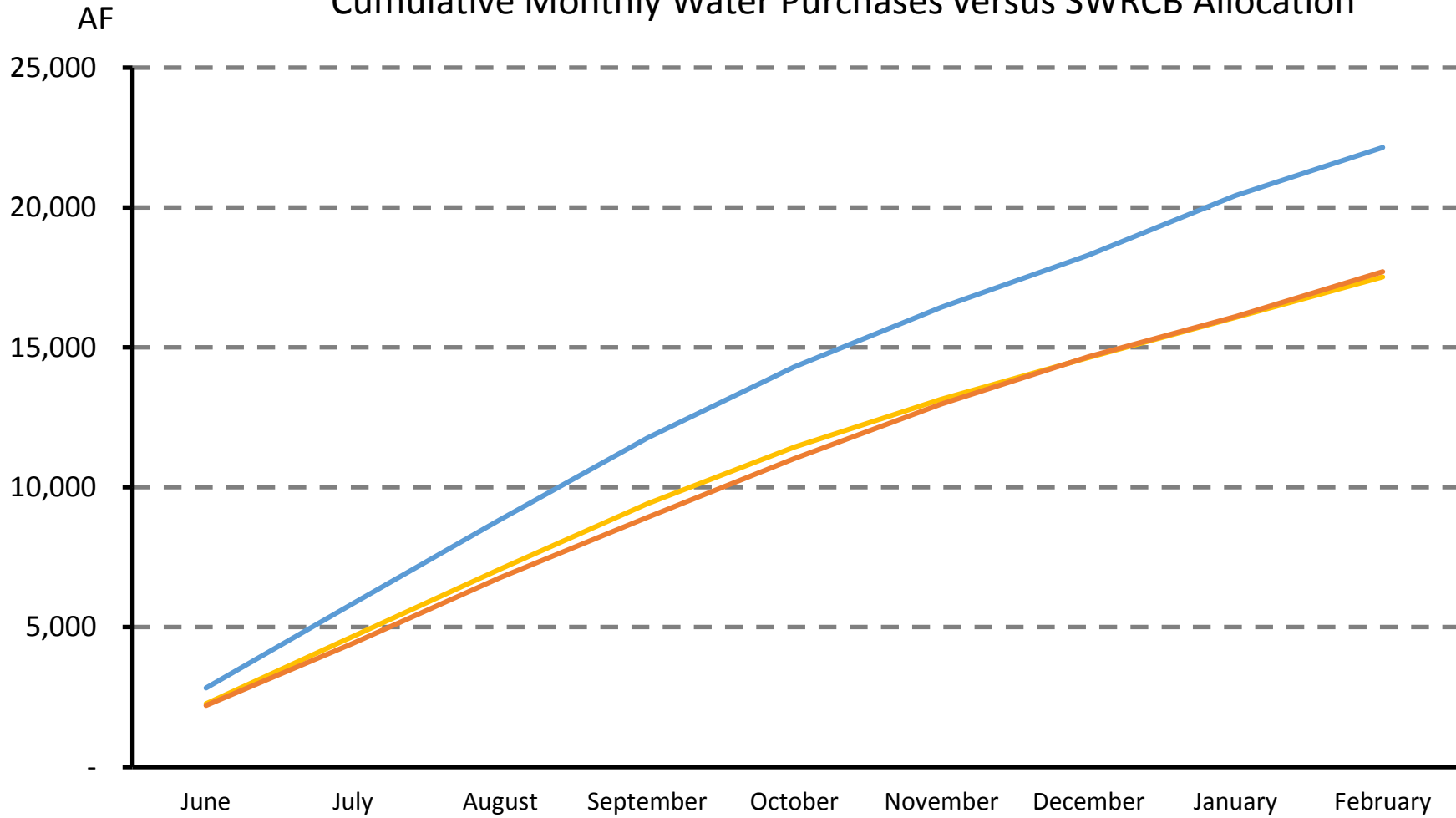
SWRCB Monthly Target & MNWD Water Purchases



■ 2015/2016 Production — 2013 Production — SWRCB Target

March 16, 2016

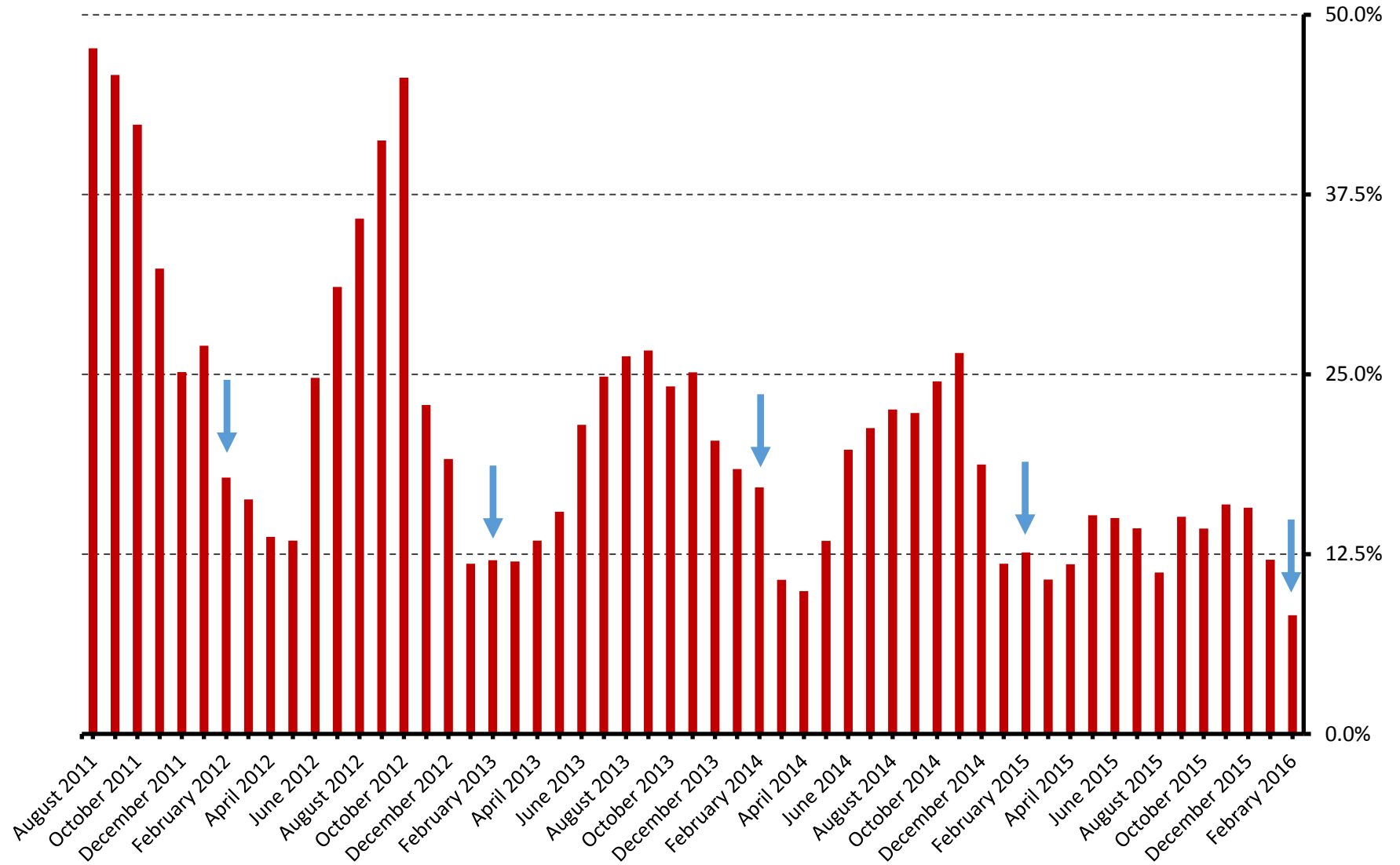
Cumulative Monthly Water Purchases versus SWRCB Allocation



— 2013/2014 Production — SWRCB Target — 2015/2016 Production

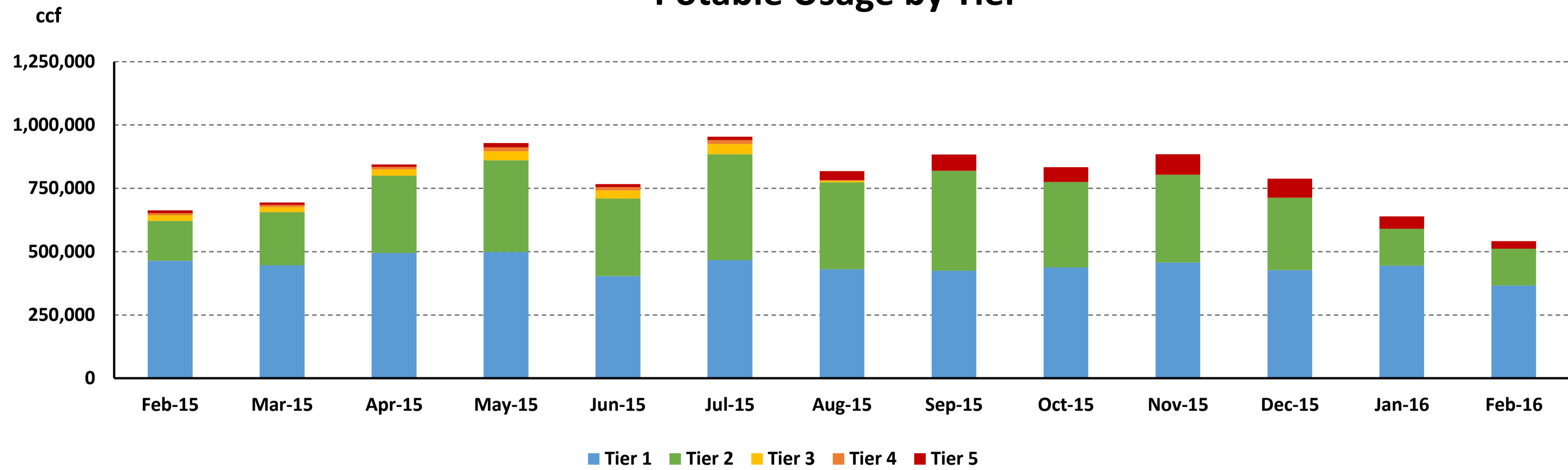
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Single Family Residential Accounts Above Tier 2



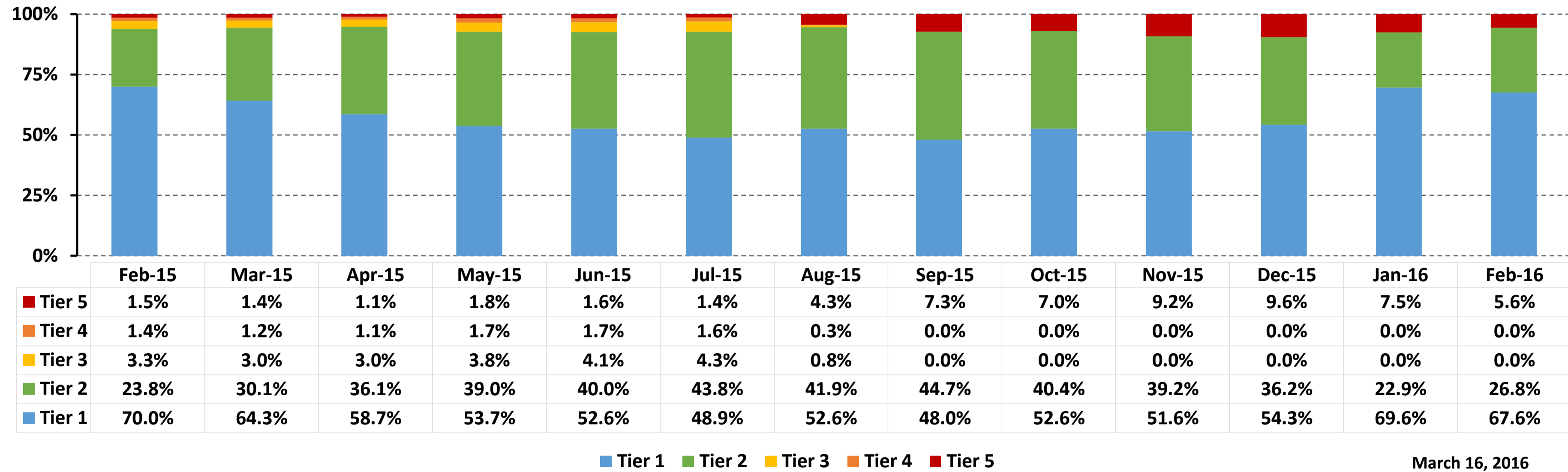
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Potable Usage by Tier



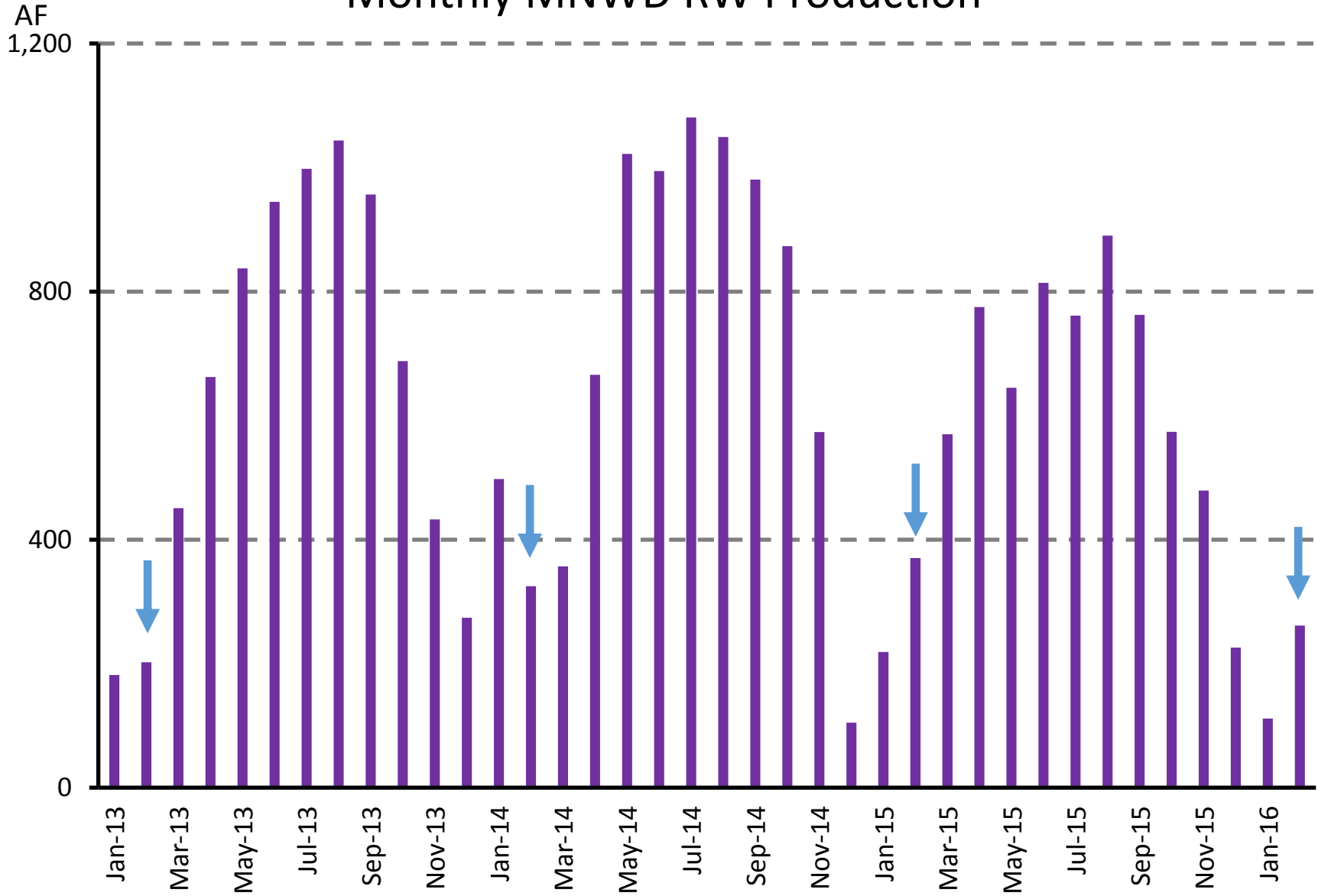
AF in Tier 3, 4, 5	94	89	101	154	131	159	102	148	134	187	173	110	70
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Percent Potable Usage by Tier



March 16, 2016

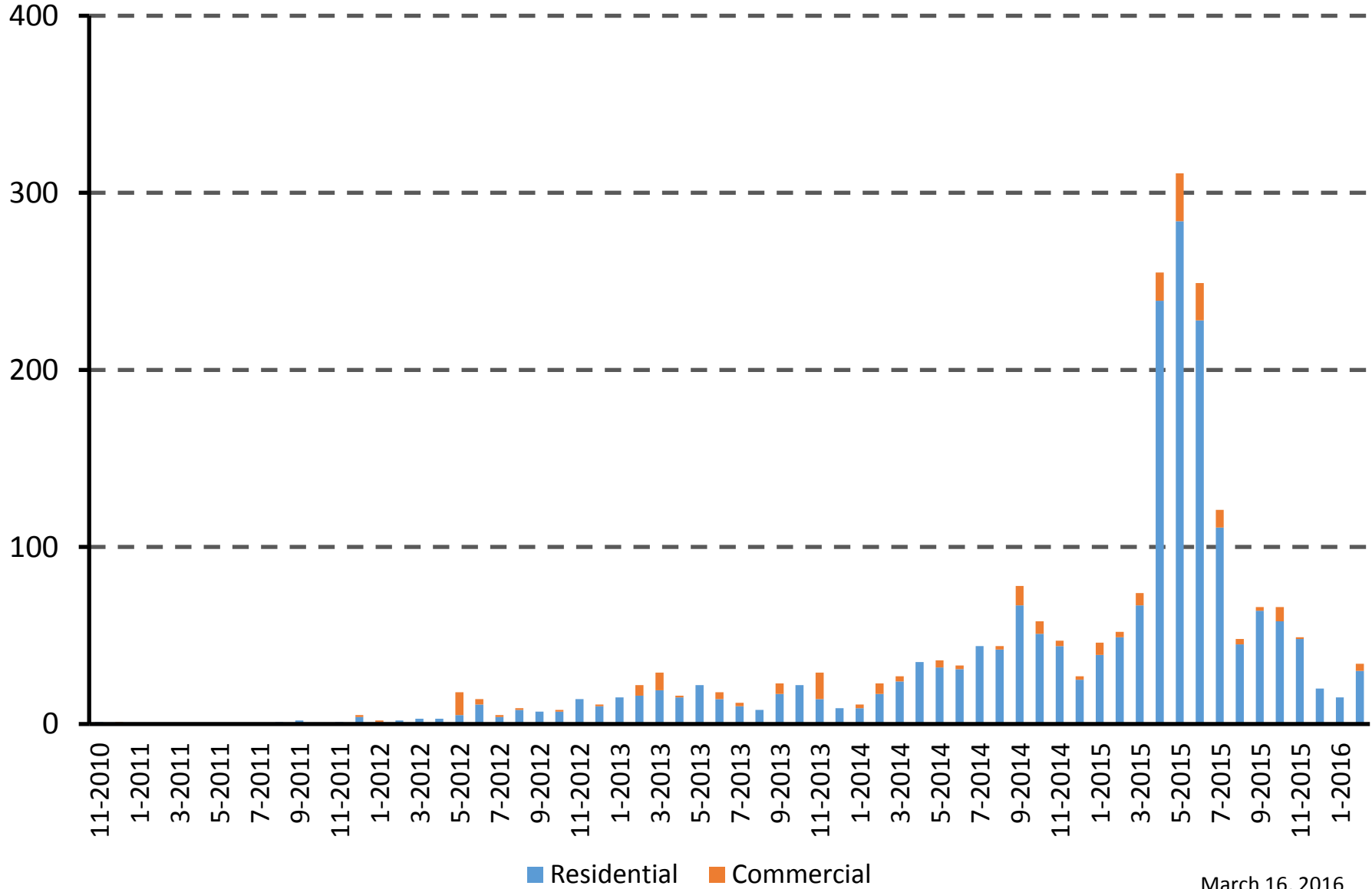
Monthly MNWD RW Production



March 16, 2016

Total Turf Removal Applications by Month

Applications



March 16, 2016

Square Feet Total Turf Removal Application Size by Month

