



REVISED

**FINANCE AND ADMINISTRATIVE SERVICES COMMITTEE MEETING
AND SPECIAL BOARD OF DIRECTORS MEETING**

Date: Monday, September 25, 2023 **Time:** 4:00 pm
Location: August A. Caires Customer Service Center, Board Room, 9300 Fanita Parkway,
Santee and Videoconference

Committee Members: Director Qualin, Chair
Director Pommering

Staff Members: Kyle Swanson, CEO/General Manager
Karen Jassoy, CFO/Director of Finance
Lisa Sorce, Director of Human Resources & Administrative Services
Amy Pederson, Board Secretary
Melissa McChesney, Communications Manager
David Salinard, Information Systems Manager
Art Oughton, Customer Service Manager
Kevin Woo, Accounting Manager

Committee Purpose: To inform, advise and offer recommendations to the Board, for the Board's consideration at a future board meeting concerning administrative and financial matters including: rates, charges and other sources of revenue; budget; investments; personnel; employer-employee relations; insurance; risk management; public relations; water conservation programs; Customer Service; Information Technology activities; and other matters of general business operations.

Committees of the Board:

Committees of less than a quorum of the Board may be created to study and advise the full Board regarding certain areas of concern. Directors that are not on the committee may attend only as observers unless the agenda indicates that a special board meeting has also been noticed as required by law, at which the Board will discuss items on the agenda but not take any action. Whenever a standing committee meeting is also noticed as a special Board meeting, it shall be conducted as a committee meeting and Directors that are not on the committee may participate in discussions upon recognition by the committee chair, but only members of the committee are entitled to make, second or vote on any motion of the committee. Any actions taken by the committee pursuant to the posted agenda shall be deemed recommendations of the committee for the full Board to consider at a future Board meeting.

The Board retains all powers, privileges and duties to exercise and perform the business of the District, and committees of the Board are not empowered to act for the Board. Committee meetings are subject to the Ralph M. Brown Act. Full Board discussion and public comment on committee recommendations shall be encouraged prior to Board action.

REVISED A G E N D A
FINANCE AND ADMINISTRATIVE SERVICES COMMITTEE
AND SPECIAL BOARD OF DIRECTORS MEETING
MONDAY, SEPTEMBER 25, 2023 – 4:00 PM

NOTICE TO THE PUBLIC

The meeting will be held at the appointed meeting place, the Board Room at the August A. Caires Customer Service Center, located at 9300 Fanita Parkway in Santee.

The meeting is also being held virtually as a convenience to the public. If a Board Member attends the meeting virtually pursuant to recent amendments to the Brown Act permitting Board Members to virtually attend under certain conditions, the public's virtual participation will be subject to such Brown Act amendments.

Register to watch the webinar via the link below:

[September 25, 2023 F&A Committee/Special Board Meeting](#)

After registering, you will receive a confirmation with a link to join the webinar.

For teleconference dial:

+1 (646) 256-7788

Webinar/Meeting ID:

830 4354 5822#

Enter # for participant ID

PUBLIC COMMENT INSTRUCTIONS

Members of the public may address the Board on any item on the agenda when the item is considered, or under "Opportunity for Public Comment" regarding items not on the posted agenda that are within the subject matter jurisdiction of the Board. If attending via Zoom, attendees must click the hand raise icon within the meeting platform and will be called on to unmute themselves when it is their turn to speak. If attending in person, fill out a "request to speak" form located near the entrance of the board room and give to the Board Secretary. Public comments are limited to 3 minutes.

Public comments may also be submitted in writing through the [public comment e-form](#) at least a half hour prior to the start of the meeting or mailed to the attention of Amy Pederson, Padre Dam, PO Box 719003, Santee, CA 92072. These public comment procedures supersede the District's normal public comment policies and procedures to the contrary.

The complete agenda package is available for public review at www.PadreDam.org. No action may be taken on any item not appearing on the posted agenda, except as provided by Gov. Code Section 54954.2. Any written materials provided to the Board within 72 hours of the meeting regarding any item on this agenda will be available for public inspection on the District's website. For questions or request for information related to this agenda contact Amy Pederson, Board Secretary, at 619.258.4614 or apederson@padre.org.

Upon request, this agenda will be made available in appropriate alternative formats to persons with disabilities, as required by Section 202 of the American with Disabilities Act of 1990. Any person with a disability who requires a modification or accommodation in order to participate in a meeting should contact our ADA Coordinator: Larry Costello at 619.258.4678 or lcostello@padre.org.

REVISED A G E N D A

- **CALL TO ORDER**

- **PLEDGE OF ALLEGIANCE**

- **OPPORTUNITY FOR PUBLIC COMMENT**

Opportunity for members of the public to address the Board regarding items not appearing on this agenda and are within the jurisdiction of the Board (Gov. Code 54954.3)

- **ITEMS TO BE WITHDRAWN OR REORDERED ON THE AGENDA**

- **ACTION AGENDA**

Items on the Action Agenda call for discussion and action by the Board Committee. All items are placed on the Agenda so that the Board Committee may discuss and take action to refer to the full Board for consideration at a future Board Meeting if the Board Committee is so inclined.

1. **UPDATE ON DISTRICT'S PORTFOLIO**

Recommendation:

Hear report from the District's Investment Advisor, Richard Babbe, with PFM Asset Management, LLC; no action required.

2. **OVERVIEW OF WORKERS' COMPENSATION AND PROPERTY/LIABILITY CLAIMS FOR FISCAL YEARS 2013/14 THROUGH 2022/23 AND OVERVIEW OF PDMWD'S CURRENT INSURANCE COVERAGE**

Recommendation:

Hear staff report; no action required.

3. **EXTENSION OF THE CURRENT AUDIT CONTRACT WITH THE PUN GROUP TO COVER AUDIT OF FY '24 – FY '26**

Recommendation:

Recommend the full Board authorize extending the audit contract with The Pun Group for an additional three year period (FY '24 through FY '26).

- **DIRECTORS COMMENTS**

Directors' comments are to be related to District business which may be of interest to the Board. They are placed on the agenda to enable individual Board Members to convey information to the Board and the Public. There is to be no discussion or action taken on comments made by Board Members.

- **FUTURE AGENDA ITEMS**

- **ADJOURNMENT**

CERTIFICATION OF POSTING

I certify that on September 22, 2023, I posted a copy of the foregoing agenda at least 72 hours prior to the meeting, in accordance with Government Code Section 54954.2(a).



Amy Pederson, Board Secretary



COMMITTEE AGENDA REPORT

Meeting Date: 09-25-2023
Dept. Head: Karen Jassoy
Submitted by: Karen Jassoy
Department: Finance
Approved by: Kyle Swanson, CEO/GM

SUBJECT: UPDATE ON DISTRICT'S PORTFOLIO

RECOMMENDATION(S):

Hear report from the District's Investment Advisor, Richard Babbe, with PFM Asset Management, LLC; no action required.

ALTERNATIVE(S):

Table to future meeting.

ATTACHMENT(S):

1. Portfolio update presentation

FUNDING:

Requested amount: N/A

Budgeted amount:

Are funds available? ☐ Yes ☐ No

Project cost to date:

PRIOR BOARD/COMMITTEE CONSIDERATION:

STRATEGIC PLAN IMPLEMENTATION:

This agenda item is consistent with the District's Strategic Business Plan and meets one or more of the following Strategic Objections: Customer Experience; Fiscal Stability; Operational Excellence, Sustainability and Resource Management; Talent Management; Technology and Innovation.

Reviewed by:		Action Required:		Policy Updates:		Action Taken:
Dept Head	<input checked="" type="checkbox"/>	Motion	<input type="checkbox"/>	Rules & Regulations	<input type="checkbox"/>	As Recommended _____
Finance	<input type="checkbox"/>	Resolution	<input type="checkbox"/>	Standard Practices	<input type="checkbox"/>	Reso/Ord. No. _____
Legal Counsel	<input type="checkbox"/>	Ordinance	<input type="checkbox"/>	& Policies		Other _____
Standard Form	<input type="checkbox"/>	None	<input checked="" type="checkbox"/>			

EXECUTIVE SUMMARY:

The Finance & Administrative Services Committee requested periodic updates on the District's portfolio to supplement the monthly Finance & Treasurer's report provided to the Board. The District's Investment Advisor, Richard Babbe, will review the District's portfolio, current market strategies and answer any questions from the Board.

RECOMMENDATION(S):

Hear report from the District's Investment Advisor, Richard Babbe, with PFM Asset Management, LLC; no action required.

Padre Dam Municipal Water District

Portfolio Update

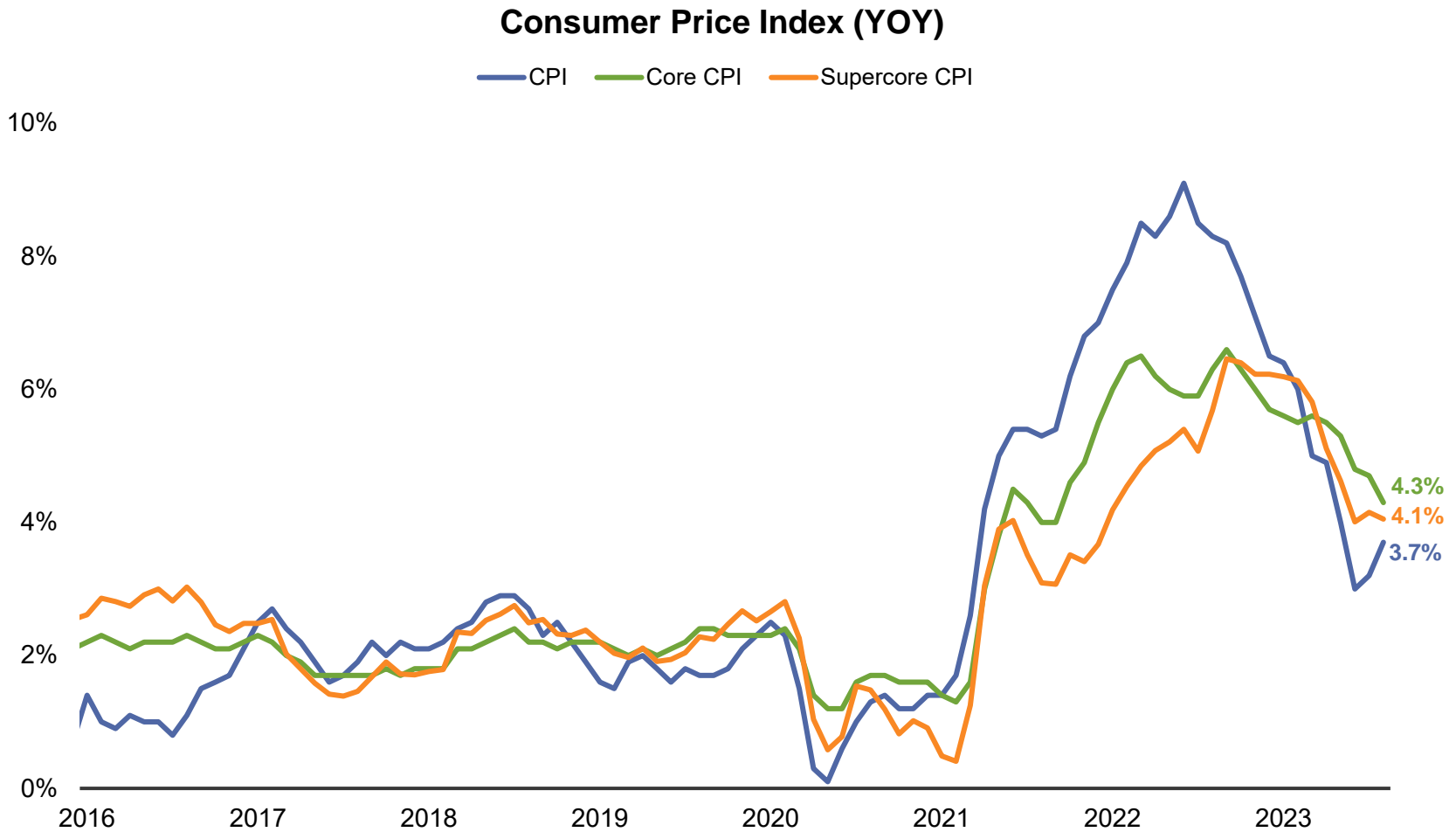
September 25, 2023

213.415.1699

PFM Asset Management LLC

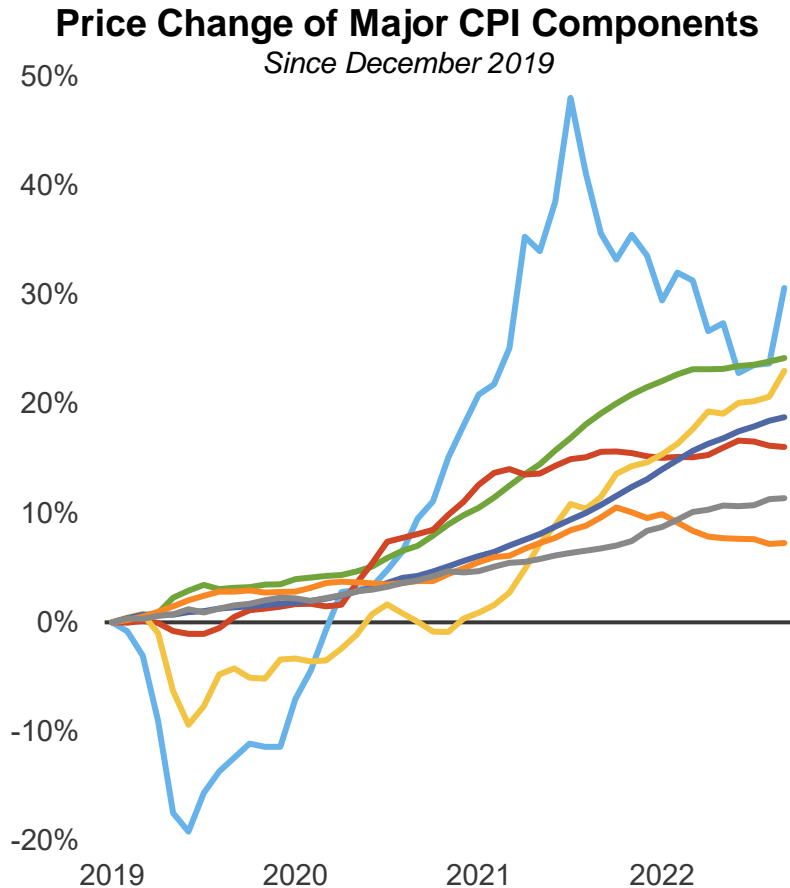
NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE

Without Oil, Core Inflation Metrics Fell in August



Source: Bloomberg, Bureau of Labor Statistics as of August 2023.
Super core CPI= Core services less housing

Inflation Accelerated in August as Gasoline Prices Jumped



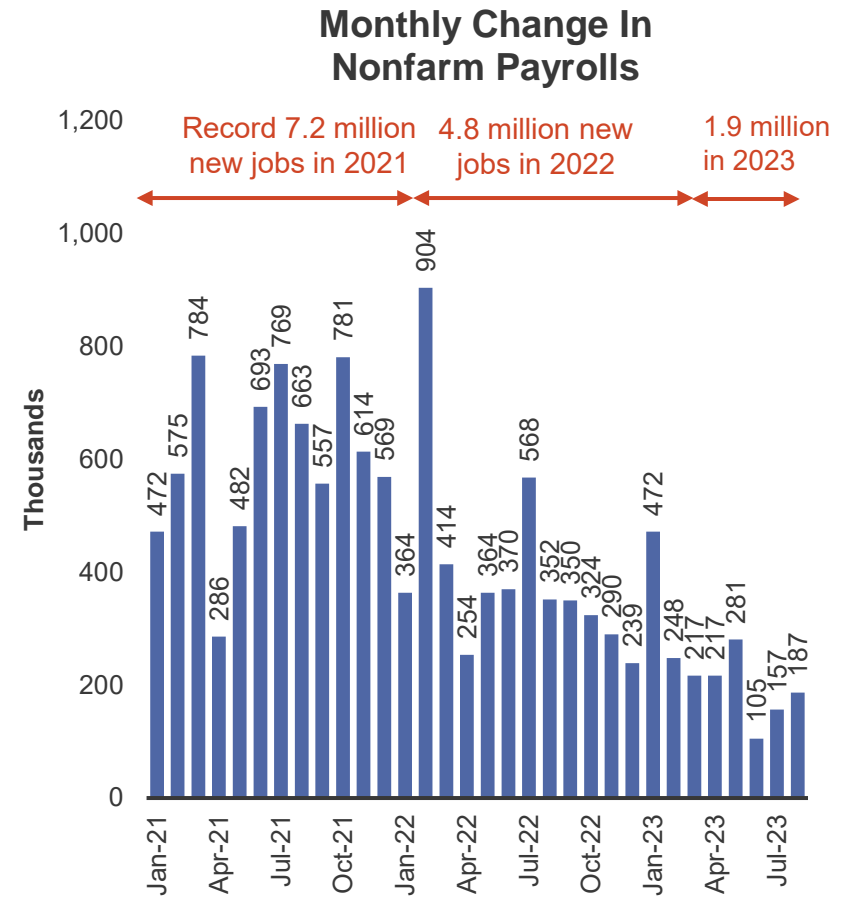
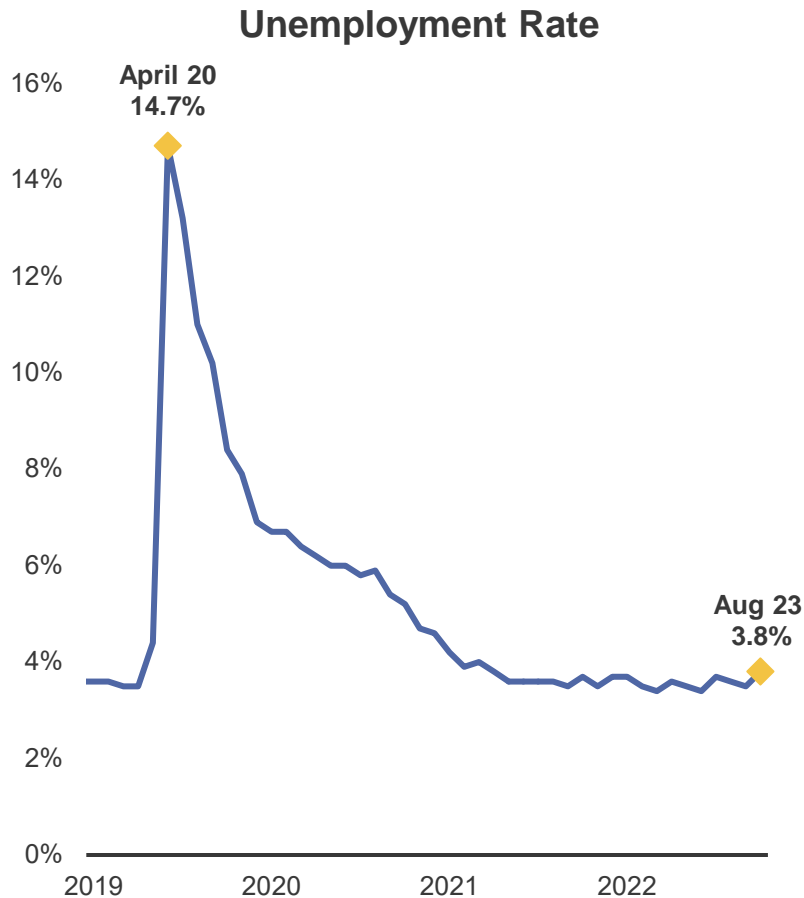
CPI Component	12-mo. Change	Weight ¹	Contribution to YoY CPI
Energy	-3.6%	7.0%	-0.3%
Food	4.3%	13.4%	0.6%
Transportation	10.4%	5.9%	0.6%
Goods	0.4%	21.2%	0.1%
Shelter	7.2%	34.8%	2.5%
Medical services	-2.1%	6.3%	-0.1%
Other Services ²	4.2%	11.3%	0.5%
Overall	3.7%		

Source: Bloomberg, Bureau of Labor Statistics as of August 2023.

¹Index weights are as of July 2023 as they are published on a one-month lag.

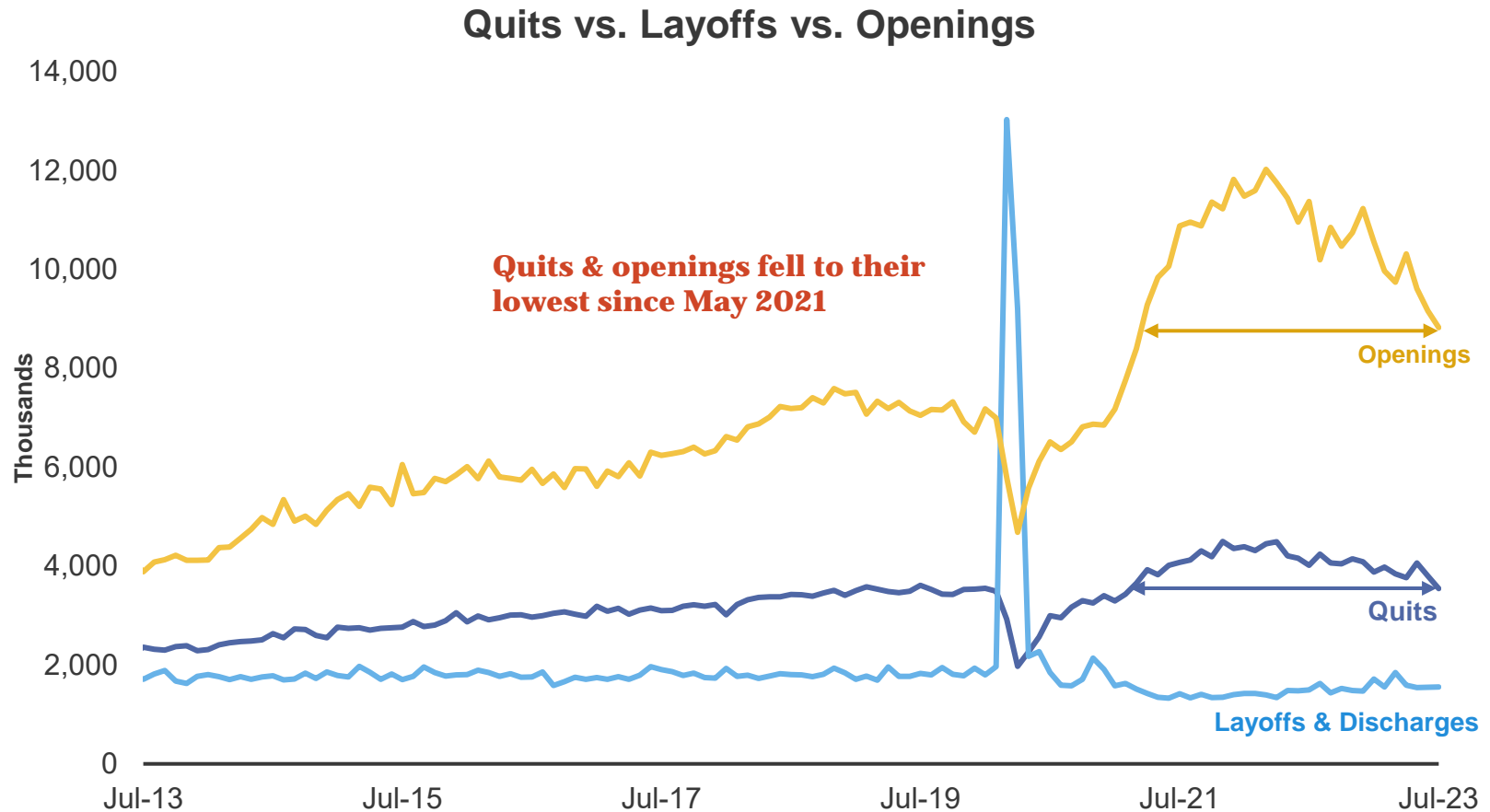
²Other services is a weighted blend of Water/Sewer/Trash, Household Operations, Recreation, and Education and Communication services.

Payrolls Came in Higher than Forecast While the Unemployment Rate Climbed



Source: Bloomberg, as of August 2023. Data is seasonally adjusted.

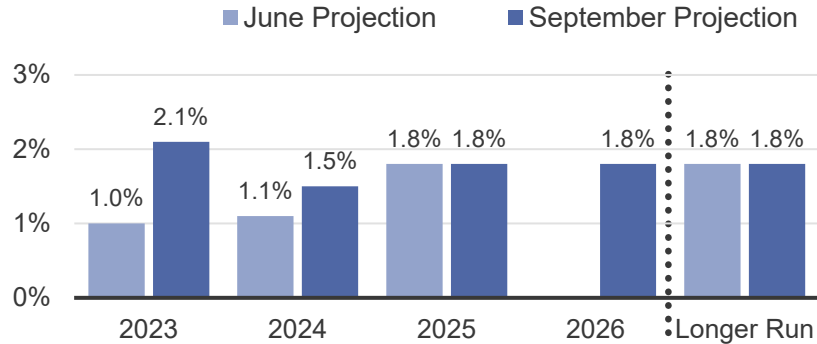
Job Openings, Driven By Fewer Quits, Fell in July



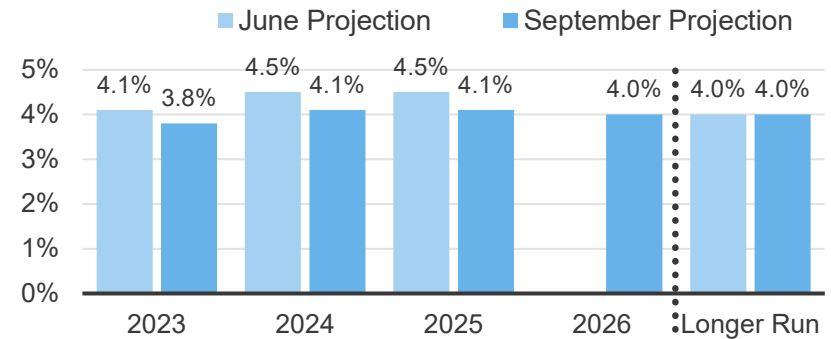
Source: FRED Economic Data; as of July 2023.

Fed's Projections Show Recent Surge in Growth and Inflation to Wane

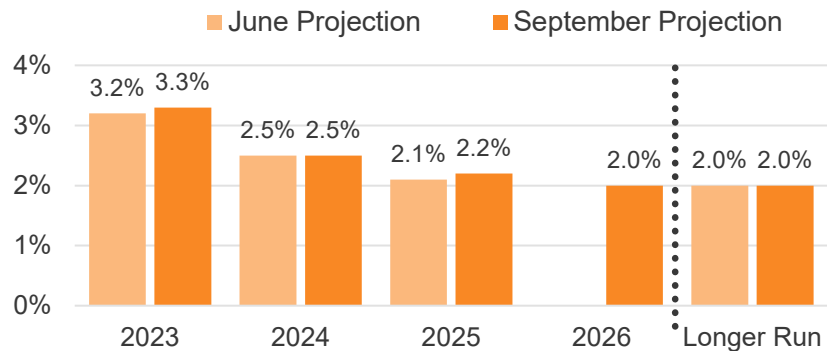
Change in Real GDP



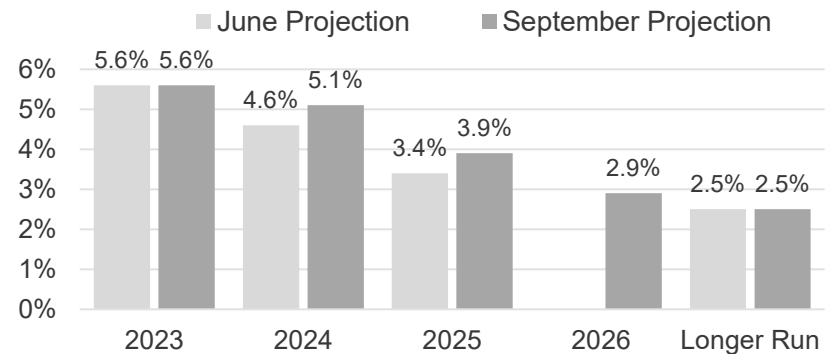
Unemployment Rate



PCE Inflation



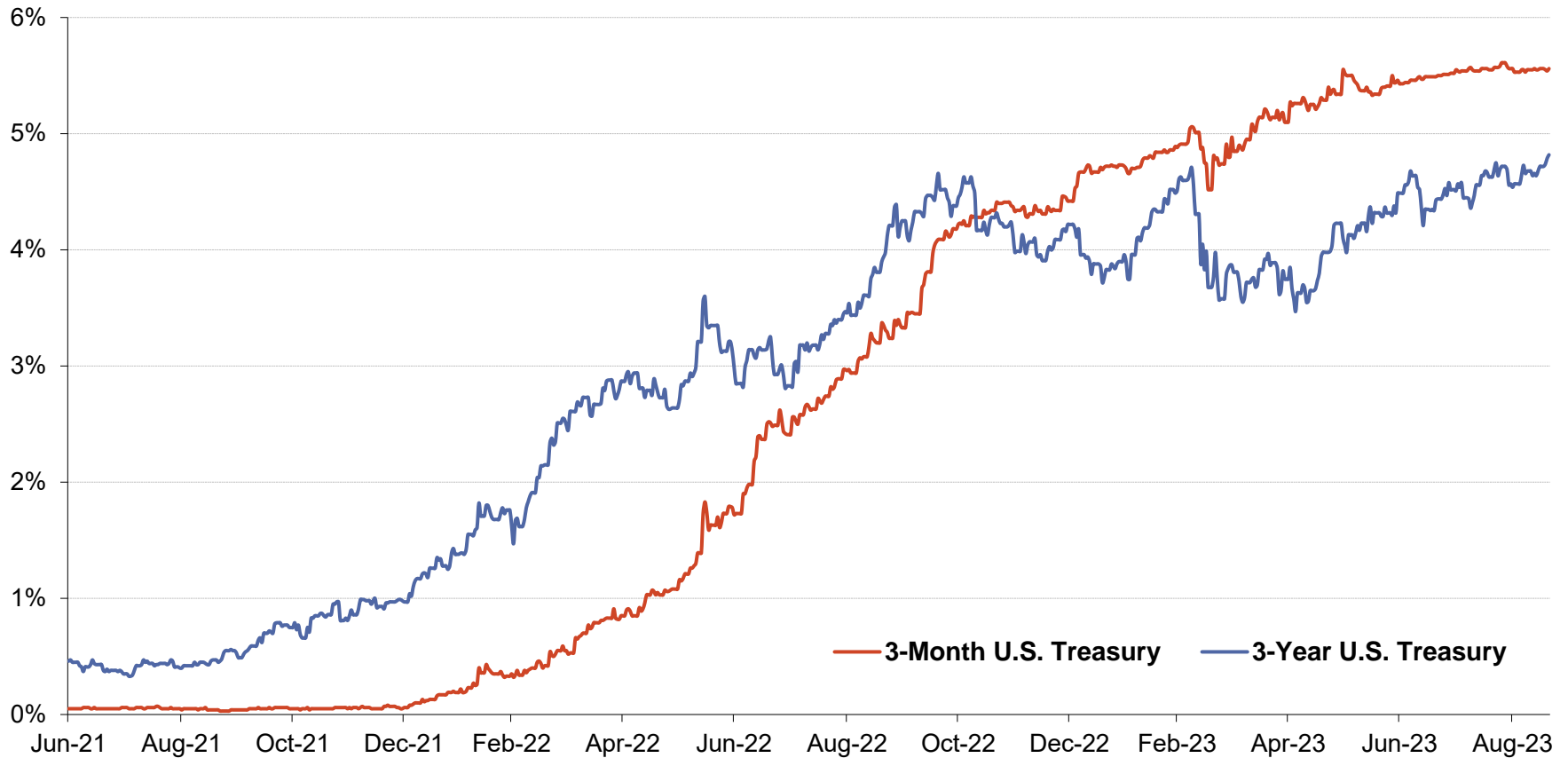
Federal Funds Rate



Source: Federal Reserve, latest summary of economic projections as of September 2023.

Treasury Yields Reflecting Fed's Higher For Longer Message

3-Month and 3-Year U.S. Treasury Yields
June 30, 2021 – September 20, 2023

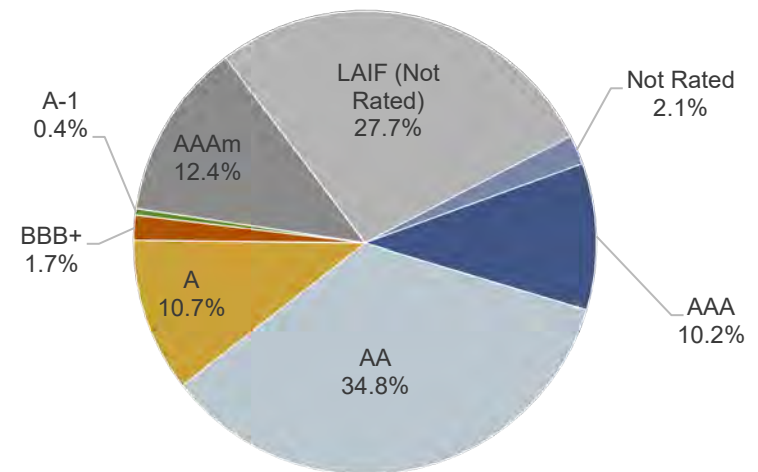


Source: Bloomberg, as of 9/20/2023

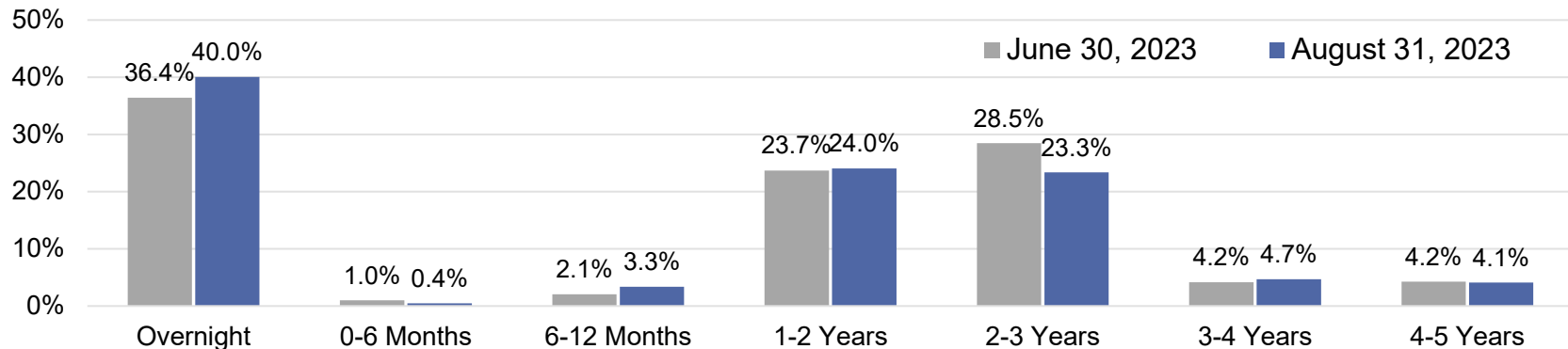
Portfolio Overview

Statistic	June 30, 2023	August 31, 2023
Combined MV	\$86,318,098	\$92,040,417
Managed Portfolio	\$54,899,076	\$55,198,001
Liquidity	\$31,419,023	\$36,842,416
Combined WAM	522	491
Managed Portfolio	820	818
Liquidity	1	1
Combined YTM-Cost	3.14%	3.55%
Managed Portfolio	2.90%	3.20%
Liquidity	3.56%	4.08%

Credit Quality – S&P Ratings



Maturity Distribution



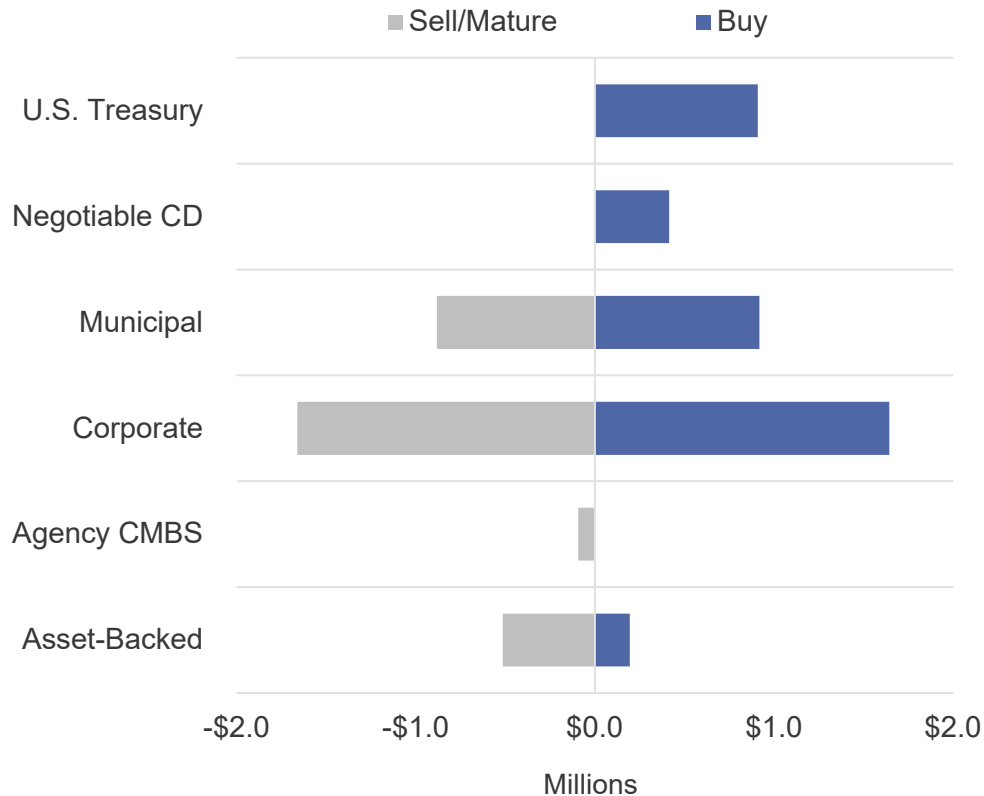
Market values excluding accrued interest..

Portfolio Composition

Security Type	Market Value as of June 30, 2023	% of Portfolio	Market Value as of August 31, 2023	% of Portfolio	\$ Change vs. Prior Quarter	Sector Limits
U.S. Treasury Bond	\$25,440,294	29.6%	\$25,532,421	27.8%	\$92,127	100%
Supranational	\$1,031,933	1.2%	\$1,040,928	1.1%	\$8,994	100%
Municipal	\$783,558	0.9%	\$468,346	0.5%	(\$315,212)	15%
Agency CMBS	\$2,904,354	3.4%	\$2,613,348	2.8%	(\$291,006)	100%
Corporate	\$13,176,164	15.3%	\$13,203,169	14.4%	\$27,005	30%
Negotiable CD	\$1,484,889	1.7%	\$1,891,399	2.1%	\$406,509	30%
Asset-Backed	\$9,734,410	11.3%	\$10,131,509	11.0%	\$397,099	20%
Security Sub-Total	\$54,555,602	63.5%	\$54,881,119	59.8%	\$325,517	
Accrued Interest	\$343,473		\$316,882		(\$26,591)	
Securities Total	\$54,899,076	63.5%	\$55,198,001	59.8%	\$298,926	
CAMP	\$6,103,589	7.1%	\$11,204,543	12.2%	\$5,100,954	100%
LAIF	\$25,266,935	29.4%	\$25,465,316	27.8%	\$198,381	\$65 million
Money Market Fund	\$48,499	0.1%	\$172,557	0.2%	\$124,058	20%
Total Investments	\$86,318,098	100.0%	\$92,040,417	100.0%	\$5,722,319	

Third Quarter 2023 Trading Activity

Gross Trading Activity July 1, 2023 – August 31, 2023



Net Trading Activity (\$ millions)

U.S. Treasury	\$0.91
Negotiable CD	\$0.42
Municipal	\$0.04
Corporate	(\$0.02)
Agency CMBS	(\$0.09)
Asset-Backed	(\$0.32)
Net Total	\$0.93

Portfolio is Well Diversified

U.S Treasury	46.5%
US Treasury	46.5%
Agency CMBS	4.8%
Freddie Mac	4.8%
Supranational	1.9%
IADB	1.9%
Municipal	0.9%
CALIFORNIA STATE UNIV.	0.4%
FLORIDA STATE	0.2%
NJ TURNPIKE AUTHORITY	0.2%
CA DEPT OF WATER	0.1%
Negotiable CD	3.4%
TORONTO-DOMINION	1.0%
NORDEA BANK ABP	1.0%
RABOBANK NY	0.7%
CREDIT AGRICOLE SA	0.7%
Asset-Backed	18.2%
CAPITAL ONE FINANCIAL	2.3%
CARMAX AUTO TRUST	1.5%
BOA Credit Card Trust	1.3%
KUBOTA CREDIT TRUST	1.3%
HONDA AUTO RECEIVABLES	1.3%
GM FINANCIAL TRUST	1.1%
MB AUTO RECEIVABLES	1.1%
NISSAN AUTO RECEIVABLES	1.1%
TOYOTA MOTOR CORP	1.0%
HYUNDAI AUTO RECEIVABLES	1.0%

FORD CREDIT AUTO TRUST	0.9%
ALLY AUTO TRUST	0.9%
H-D MOTORCYCLE TRUST	0.7%
FIFTH THIRD AUTO TRUST	0.7%
DISCOVER FINANCIAL	0.6%
Mercedes-Benz Group AG	0.4%
VOLKSWAGEN OF AMERICA	0.3%
HYUNDAI AUTO TRUST	0.2%
BMW VEHICLE OWNER TRUST	0.2%
BMW FINANCIAL SERVICES	0.1%
HOME DEPOT INC	0.1%
VERIZON OWNER TRUST	0.0%
WORLD OMNI TRUST	0.0%
Corporate	24.3%
JP MORGAN CHASE & CO	1.5%
BNY MELLON CORPORATION	1.4%
STATE STREET CORPORATION	1.3%
NATIONAL AUSTRALIA BANK	1.2%
BANK OF AMERICA CO	1.2%
AMERICAN EXPRESS CO	1.0%
BMW FINANCIAL SERVICES	0.9%
ROCHE HOLDINGS INC	0.8%
NESTLE SA	0.8%
TOYOTA MOTOR CORP	0.8%
PRAXAIR INC	0.7%
Rabobank UA	0.7%
HSBC Holdings PLC	0.7%

AMERICAN HONDA FINANCE	0.7%
GOLDMAN SACHS GROUP INC	0.7%
IBM CORP	0.7%
3M COMPANY	0.6%
CITIGROUP INC	0.6%
WAL-MART STORES INC	0.6%
MORGAN STANLEY	0.6%
DEERE & COMPANY	0.5%
USAA CAPITAL CORP	0.5%
TRUIST FIN CORP	0.5%
PACCAR FINANCIAL CORP	0.5%
INTEL CORPORATION	0.5%
ANZ BANKING GROUP LTD	0.5%
Bank of America Corp	0.4%
COLGATE-PALMOLIVE CO	0.4%
WELLS FARGO & COMPANY	0.3%
EXXON MOBIL CORP	0.3%
TARGET CORP	0.3%
CHARLES SCHWAB	0.3%
NATIONAL RURAL UTILITIES	0.3%
CATERPILLAR INC	0.3%
HONEYWELL INTERNATIONAL	0.2%
MERCK & CO INC	0.2%
PEPSICO INC	0.2%
CINTAS CORPORATION NO. 2	0.2%
UNILEVER PLC	0.2%
LOCKHEED MARTIN CORP	0.2%
HOME DEPOT INC	0.1%

Market values excluding accrued interest and money fund balances

Managed Portfolio: Total Return Performance

- The portfolio's performance was very strong relative to the benchmark, but absolute returns have turned negative due to rapidly rising interest rates from historical low levels.

Managed Portfolio Total Return

Periods ending June 30, 2023

	Duration (years)	Past Quarter	Past Year	Past 5 Years	Past 10Years
Padre Dam MWD	1.76	-0.15%	0.91%	1.30%	1.01%
ICE BofAML 1-3 Year U.S. Treasury Index	1.75	-0.57%	0.13%	0.95%	0.77%
Difference	+0.01	+0.40%	+0.78%	+0.35%	+0.25%

1. The lesser of 10 years or since inception is shown. Since inception returns for periods one year or less are not shown. Performance inception date is June 30, 1997.
2. Interest earned calculated as the ending accrued interest less beginning accrued interest, plus net interest activity.
3. Returns for periods one year or less are presented on a periodic basis. Returns for periods greater than one year are presented on an annualized basis.
4. The portfolio's benchmark is the ICE BofAML 1-3 Year U.S. Treasury Index. Source: Bloomberg.

Disclaimer

Investment advisory services are provided by PFM Asset Management LLC (“PFMAM”), an investment adviser registered with the U.S. Securities and Exchange Commission and a subsidiary of U.S. Bancorp Asset Management, Inc. (“USBAM”). USBAM is a subsidiary of U.S. Bank National Association (“U.S. Bank”). U.S. Bank is a separate entity and subsidiary of U.S. Bancorp. U.S. Bank is not responsible for and does not guarantee the products, services or performance of PFMAM. The information contained is not an offer to purchase or sell any securities. Additional applicable regulatory information is available upon request.

For more information regarding PFMAM’s services please visit www.pfmam.com.





COMMITTEE AGENDA REPORT

Meeting Date: 09-25-2023
Dept. Head: Lisa Sorce
Submitted by: Larry Costello
Department: HR & Administrative Services
Approved by: Kyle Swanson, CEO/GM

SUBJECT: OVERVIEW OF WORKERS' COMPENSATION AND PROPERTY/LIABILITY CLAIMS FOR FISCAL YEARS 2013/14 THROUGH 2022/23 AND OVERVIEW OF THE DISTRICT'S CURRENT INSURANCE COVERAGE

RECOMMENDATION(S):

Hear staff report; no action required.

ALTERNATIVE(S):

N/A

ATTACHMENT(S):

1. Claims Report for Fiscal Years 2013-14 through 2022-23
2. PDMWD Current Insurance Coverage
3. Analysis of property/liability insurance market

FUNDING:

Requested amount: N/A
Budgeted amount: N/A
Are funds available? ☐ Yes ☐ No
Project cost to date: N/A

PRIOR BOARD/COMMITTEE CONSIDERATION: N/A

STRATEGIC PLAN IMPLEMENTATION:

This agenda item is consistent with the District's Strategic Business Plan and meets one or more of the following Strategic Objections: Customer Experience; Fiscal Stability; Operational Excellence, Sustainability and Resource Management; Talent Management; Technology and Innovation.

Reviewed by:		Action Required:		Policy Updates:		Action Taken:
Dept Head	<input checked="" type="checkbox"/>	Motion	<input type="checkbox"/>	Rules & Regulations	<input type="checkbox"/>	As Recommended _____
Finance	<input type="checkbox"/>	Resolution	<input type="checkbox"/>	Standard Practices	<input type="checkbox"/>	Reso/Ord. No. _____
Legal Counsel	<input type="checkbox"/>	Ordinance	<input type="checkbox"/>	& Policies		Other _____
Standard Form	<input type="checkbox"/>	None	<input checked="" type="checkbox"/>			

EXECUTIVE SUMMARY:

The Safety & Risk Manager provides an annual claims update of workers' compensation (WC) and property/liability (P/L) claims for the most recent 10 fiscal years as well as an overview of the District's current insurance coverage.

DESCRIPTION:**WORKERS' COMPENSATION CLAIMS**

The attached 10-year view of WC claims shows that no clear pattern exists although the past five years (FY 18/19–22/23) shows a decrease in the severity of claims when compared to the prior five year period (FY 13/14-17/18). Almost two-thirds of the WC claims in the 10-year period were for either Lifting/Reaching/Pulling, Slips/Trips/Falls, Strains/Twisting or Struck by Object.

PROPERTY/LIABILITY CLAIMS

As with WC claims, no clear pattern exists over the past 10 years with the vast majority of high dollar claims due to road damage from main line breaks, particularly on the Ridge Hill Road line in El Cajon which has since been replaced, the Mission Gorge Road lines in Santee in 2018-19 and the Cuyamaca line break in 2020.

CURRENT INSURANCE COVERAGE

The District's current coverage is supplied by the Special District Risk Management Authority (SDRMA). Coverage programs include Property/Liability (P/L) and Workers' Compensation (WC).

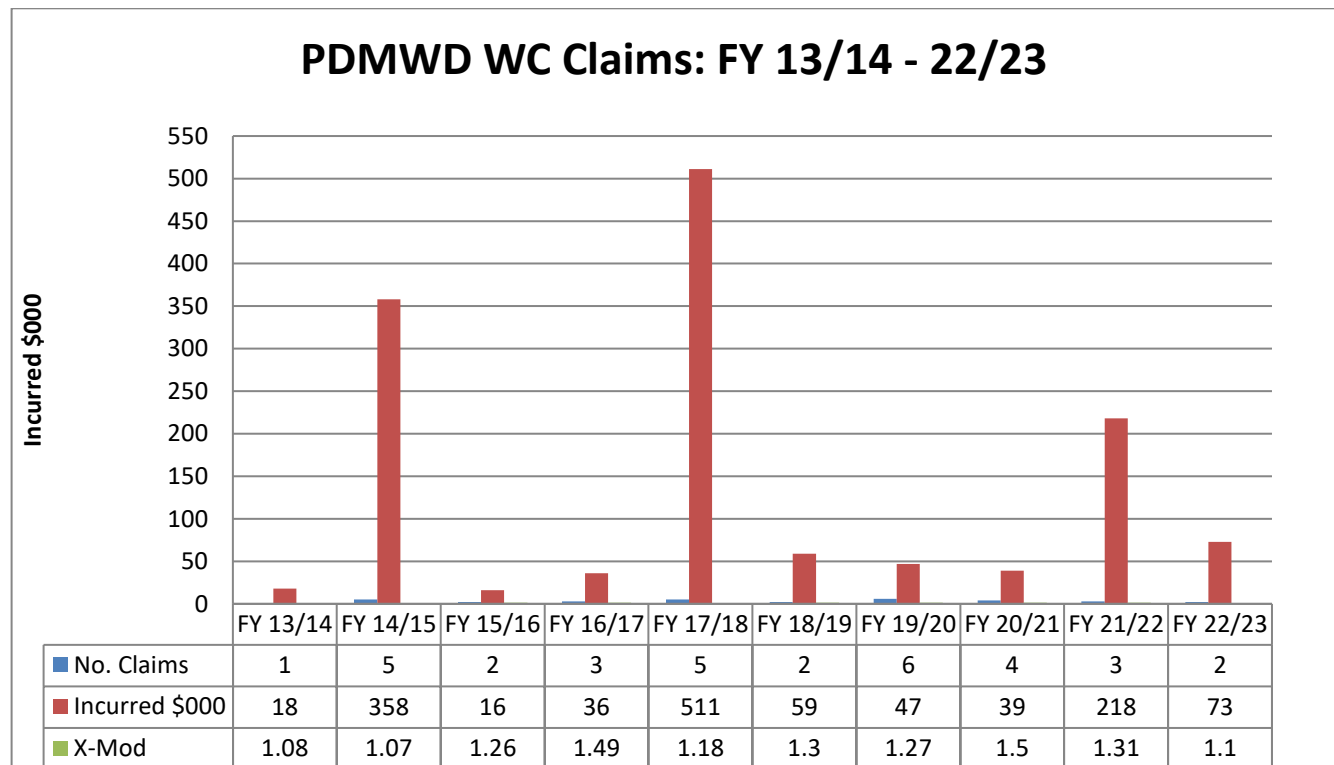
RECOMMENDATION(S):

Hear staff report; no action required.

PDMWD Risk/Safety
Workers' Compensation (WC) and Property/Liability (P/L) Claims
Fiscal Years 13/14 – 22/23

Workers' Compensation (WC)

The following represents a 10-year view of WC claims. No clear pattern exists although the most recent 5-year period (FY 18/19 – 22/23) shows a decrease in the severity of claims when compared to the prior 5-year period (FY 13/14 – 17/18).



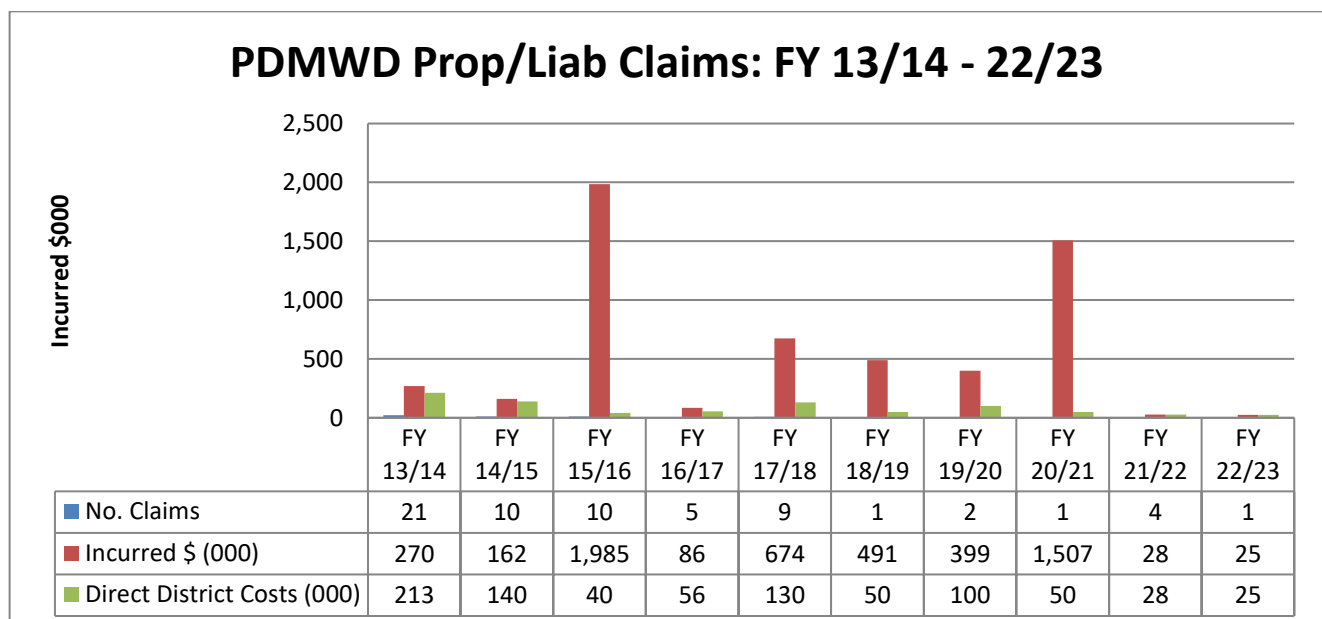
Our X-Mod (Experience Modifier) decreased in 22/23 over 21/22, from 1.31 to 1.1, however, our X-Mod in 23/24 increased to 1.23 due to the increase in the severity of our claims in the past few years. X-Mods are used by SDRMA to determine premiums for members; a 1.0 X-Mod is baseline and X-Mods < 1.0 have lower premiums.

A breakdown of claims by injury type over this 10-year period shows that almost two-thirds of all claims were for either lifting/reaching/pulling, slips/trips/falls, strains/twisting or employees who were struck by an object:

Claims by Injury Type	%
Animal/Insect Bite	4%
Body Part Caught	5%
Caught In/Under/Between	5%
Lifting/Reaching/Pulling	22%
Other	14%
Slip/Trip/Fall	10%
Strain/Twisting	19%
Struck by Object	12%
Unknown	8%

Property/Liability (P/L)

The following chart details Property/Liability claims for the past 10 years. As with WC claims, no clear pattern exists. The vast majority of high dollar claims were due to road damage from main line breaks, particularly on the Ridge Hill Road line in El Cajon in FY 15/16 which has since been replaced, the Mission Gorge Road line breaks in FY18/19 and FY 19/20, and the Cuyamaca Street line break in FY 20/21.



A breakdown of P/L claims by claim type for the 10-year period is as follows with General Property Damage comprising almost two-thirds of all claims.

Claims by Claim Type

	%
General Property Damage	64%
General Bodily Injury	13%
Employee Benefits	1%
Employment Practices Liability	3%
Auto Property Damage	7%
Auto Bodily Injury	3%
Auto Collision	3%
All Risk Perils	1%
Theft	1%
Mobile Equipment	1%

PDMWD Risk/Safety PADRE DAM'S CURRENT INSURANCE COVERAGE



Padre Dam's current insurance coverages are supplied by the Special District Risk Management Authority (SDRMA):

- SDRMA is a JPA that has provided comprehensive coverage protection to California Public Agencies for over 30 years.
- They currently serve over 660 individual public agency members with over \$4 billion in member insured property.
- Coverage programs include Property/Liability (P/L), Workers' Compensation (WC) and Health Benefits.
- P/L coverage includes: Auto Comprehensive and Collision, Equipment and Trailers, Faithful Performance Bond, Boiler and Machinery, Cyber Liability, Employment Practices Liability and Public Officials Errors and Omissions.
- Besides providing coverage protection and claims management, they provide tailored safety and loss prevention programs.

The history of PDMWD and SDRMA:

- PDMWD has been in SDRMA's P/L program since 2001 and in their WC program since 2006.
- Although our history with SDRMA has been positive, it had been a number of years since we joined them so staff wanted to do due diligence and confirm that the District was receiving competitive rates/services.
- In tandem with this effort the District needed to secure coverage for the East County AWP JPA.
- After a formal RFP process, an insurance consultant (Alliant Insurance Services) was hired in August 2020 to assist with these two efforts.
- Alliant marketed our coverage to the open insurance market as well as other JPA insurance pools.
- SDRMA was determined to provide the best coverage at the best cost to PDMWD.
- A similar effort to market our coverage will occur every 5 years as part of our business plan cycle.

CURRENT INSURANCE COVERAGE

MEMBER'S CERTIFICATE OF COVERAGE				Issue Date 7/1/2023
Provider	Special District Risk Management Authority 1112 'I' Street, Suite 300 Sacramento, California 95814 800.537.7790 www.sdrma.org			
Member	Padre Dam Municipal Water District Post Office Box 719003 Santee, California 92072			Member Number: 7147
<p>This is to certify that coverages listed below have been issued to the Member named above for the period indicated. This certificate is not an insurance policy or an agreement of coverage and does not amend, extend or alter the coverage afforded by the agreements listed herein. 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 coverage described herein is subject to all the terms, exclusions, and conditions of the specific coverage document. This certificate of coverage evidences the limits of liability in effect at the inception of the agreements shown; limits shown may have been reduced by paid claims. This certificate is issued as a matter of information only and confers no rights upon the certificate holder.</p>				
Type of Coverage	Policy Number	Effective Date	Expiration Date	Limits
Property	PPC-SDRMA-202324	7/1/2023	7/1/2024	Per Occurrence
Property				\$1,000,000,000
Boiler & Machinery				\$100,000,000
Pollution	PPC-SDRMA-202324			
Cyber				Limits on File
Catastrophic Loss				\$1,000,000,000
				Replacement cost for Scheduled Property
Mobile Equipment	LCA-SDRMA-202324	7/1/2023	7/1/2024	Per Occurrence
Mobile/Contractors Equipment				\$1,000,000,000
				Actual cash value for Scheduled Property
General Liability	LCA-SDRMA-202324	7/1/2023	7/1/2024	Per Occurrence
Bodily Injury				\$10,000,000
Property Damage				\$10,000,000
Public Officials Personal				\$500,000
Employment Benefits				\$10,000,000
Employee/Public Officials E & O				\$10,000,000
Employment Practices Liability				\$10,000,000
Employee/Public Officials Dishonesty (Crime)	EDC-SDRMA-202324			\$1,000,000
Auto Liability	LCA-SDRMA-202324	7/1/2023	7/1/2024	Per Occurrence
Auto Bodily Injury				\$10,000,000
Auto Property Damage				\$10,000,000
Non-Owned Auto Bodily Injury				\$10,000,000
Non-Owned Auto Property Damage				\$10,000,000
Uninsured Motorist	UMI-SDRMA-202324			Limits on File
Auto Physical Damage	LCA-SDRMA-202324	7/1/2023	7/1/2024	Per Occurrence
Auto PD - Comp				Limits on File
Auto PD - Collision				Limits on File
High Dollar Vehicles				Limits on File
Trailer	LCA-SDRMA-202324	7/1/2023	7/1/2024	Per Occurrence
Trailer				Limits on File
Workers' Compensation	WCP-SDRMA-202324	7/1/2023	7/1/2024	Per Occurrence
Employers Liability				\$5,000,000
Workers' Compensation				Statutory
 Brian Kelley, MBA, ARM - Chief Executive Officer				
<p><small>Description: All listed coverage is in effect only for the time period specified.</small></p>				

Current Insurance Market Conditions

Top 6 Critical Risks shaping the liability landscape today:

1. Violent Events (violence is the second leading cause of death among government workers)
2. Cyber Attacks
3. Sexual Misconduct
4. Fleet Management (distracted driving, impaired driving, shortage of drivers)
5. Increased Litigation
6. Increasing Jury Awards

Looking Ahead – The Market

Liability Market:

- Sexual misconduct claims continue to come forward;
- High values and potential coverage issues (occurrences, date of loss, coverage exclusions/caps);
- Increasing area of underwriting for entity's Policies and Procedures.

Continued market hardening expected.

Property Market:

- Increased scrutiny of client data (SOV, loss runs, COPE, etc.).
- Increased retentions and caps on certain types of exposure (wildfire).
- Decreased limits provided by single carriers.

Premium increases expected.

Workers Compensation Market:

Unlike other core coverage lines, WC remains relatively stable.



February 16, 2023

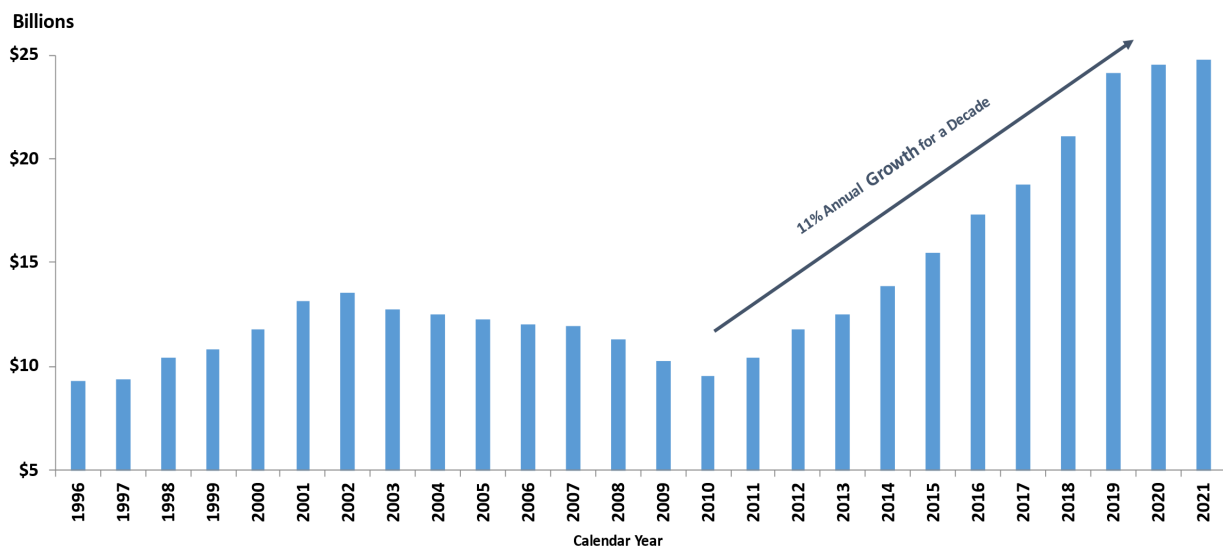
To: General Liability Program 1 (GL1) Members

From: Gina Dean, CEO

Re: GL1 Program Stakeholder Communication – Navigating the New Normal

The increase in the number and size of large liability claims continues to create very difficult market conditions. To some extent this is “the same old story” that we have been communicating over the last several years. The difference perhaps, being an increased recognition that the clear uptick in losses (as illustrated in the graphic below) we’ve experienced across the industry, and across the PRISM GL programs, are not an extended anomaly or a string of bad luck, but rather the new normal. The factors that continue to fuel the increased claims costs are varied and many, but they all result in more and larger claims...frequency of severity. This is a wide-spread issue that particularly impacts public entities, and our members have contributed our fair share of large losses. However, the members are certainly better off together than they would be as individual placements out in the market, and PRISM remains the best solution in navigating this new normal.

Upward Trend in Liability Claims



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Joint Powers Authorities
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A Public Agency

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916.850.7300

prismrisk.gov

Now more than ever it is critical that we maximize our collective strength to address these pressing and increasingly costly issues. It is imperative that we continue to take action to prevent, control and mitigate losses. Lastly, it is important that we all understand the trends and issues that we are faced with so that we can effectively communicate them to our various constituents along with a clear picture of what we are doing together to address them. The attached document is the first step in that effort. It will:

- Further explore the factors driving the losses and the hard market,
- Discuss the risk control resources that PRISM brings to address the loss exposures,
- Describe why being a member of the Program continues to provide value to the members,
- Advise on what you the member can do to mitigate increases,
- Address how the allocation formulas ensure equity among those who have experienced losses and those who haven't yet, and
- Provide talking points intended to help you communicate the message to your management and governing bodies.

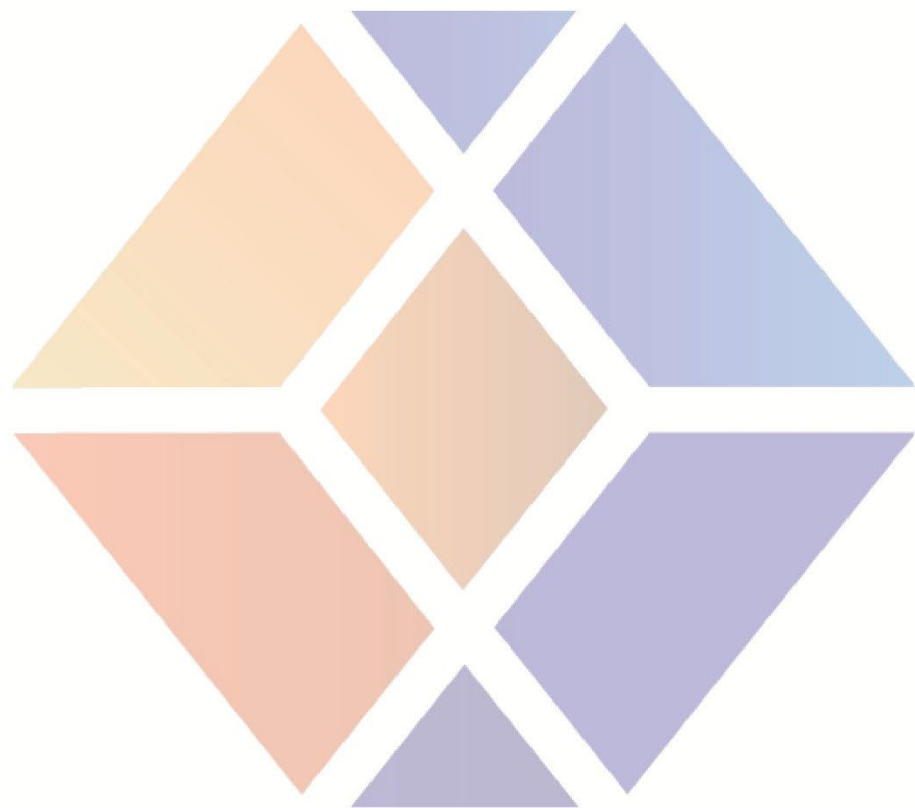
To help you fully digest this information we plan to hold several Zoom meetings over the coming weeks where we will discuss the above in greater detail and answer any questions the members may have in reviewing these materials. We are prepared to also have individual calls/meetings with members who may want assistance in preparing communications to their stakeholders. In the meantime, myself and the rest of the PRISM and Alliant staff stand ready to answer questions and assist any way that we are able.

As noted above, the collective financial strength, expertise and resources continue to make PRISM the best solution even, and perhaps especially, through these hard market conditions.

Please don't hesitate to reach out to us for assistance.

Sincerely,

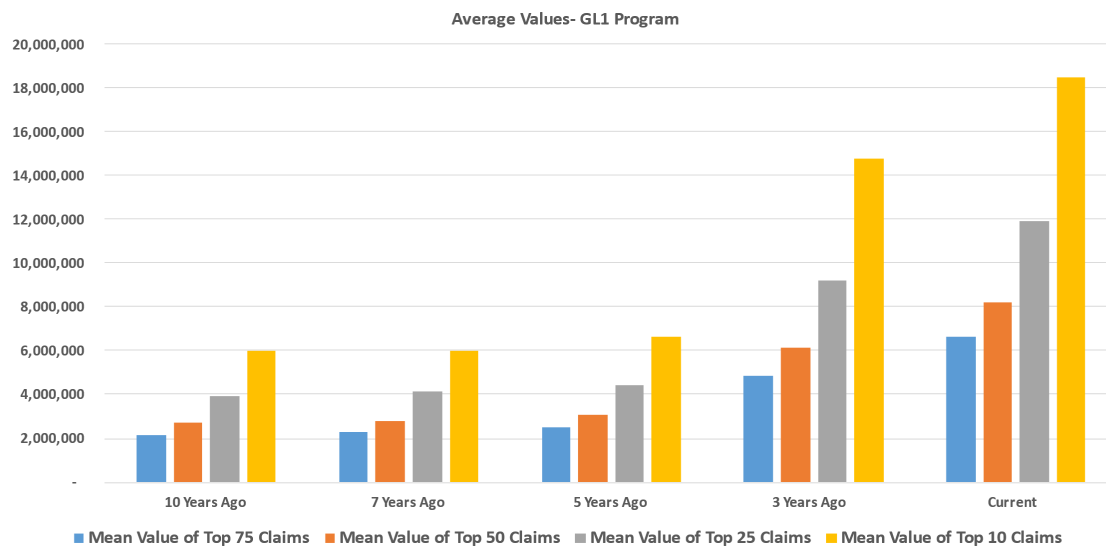
Gina Dean



2023 Liability Insurance Market Update

The hard general liability market that we have experienced in recent years will continue for 2023. The increase in the number and size of extremely large losses over the last 6-8 years are the main contributor. The prolonged soft market that we enjoyed during the 15-20 years prior to the market starting to harden in the late 2010's contributed to the problem. Relatively good loss experience over that time drove competition way up and pricing down to a point that wasn't sustainable, especially once the loss experience changed. And change it did. Starting around 2013-2014, the size of loss outcomes got significantly bigger. Claims that previously had resolved in the \$5M-\$10M range started costing public entities and their insurers \$20M-\$30M and higher. This turned out to be an industry-wide trend, but certainly seemed to have its origins in California, and tracks with PRISM's experience as well. The graph below illustrates the change in the average loss amount for the larger losses in the GL1 Program's loss portfolio.

Mean Value Large Liability Losses

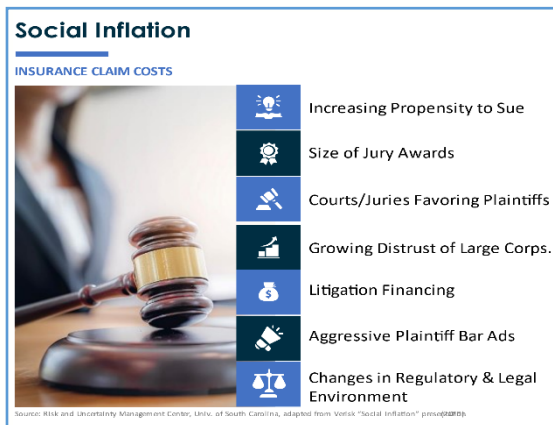


Clearly something changed, and with that change, carriers have been taking steps to protect themselves from what appears to be the new normal. This has included:

- Withdrawing from the market altogether,
- Reducing capacity (amount of limit carriers are willing to put at risk),
- Increasing attachment point,
- Pushing for aggregate limits,
- Restricting coverage through exclusionary language, and
- Dramatically increasing rates.

We expect some or all of the above to continue for the 23/24 renewal.

Why is This Happening



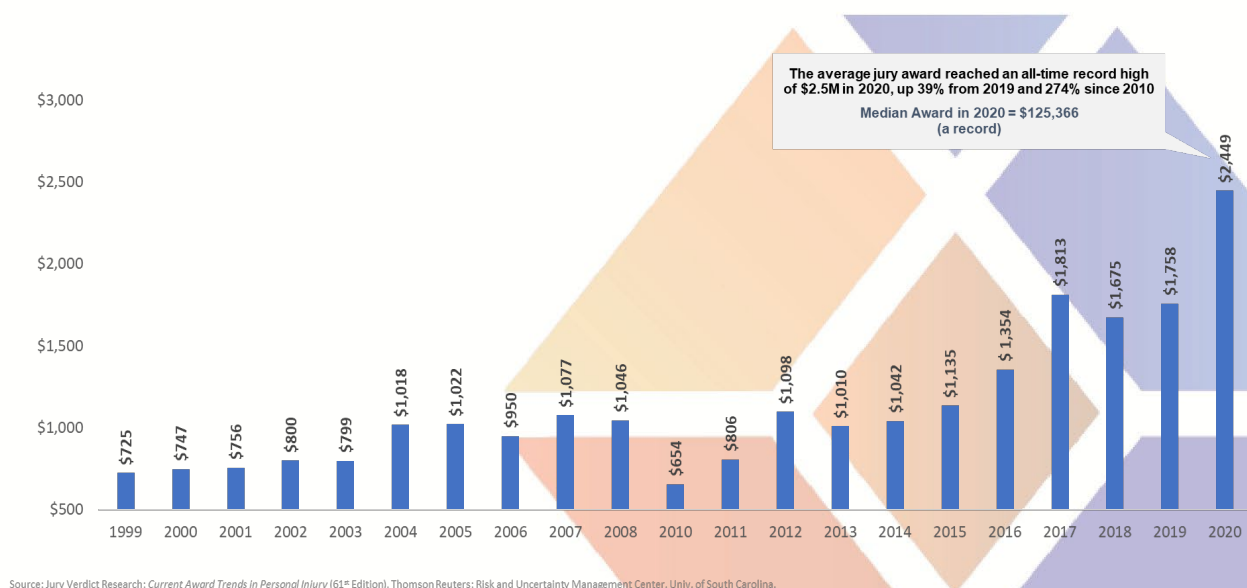
There are numerous reasons for the increased frequency of severity described above, collectively referred to as Social Inflation. Generally defined as “all ways in which insurers’ claims cost rise over and above general economic inflation”, there are numerous specific factors that cause this phenomenon some of which are listed in the box to the left.

Other factors that are often cited are the overall economic disparity between the “haves” and the “have nots”; the changing composition of jury

demographics to millennials who tend to hand out bigger awards; the impact of our digital society where public opinion can be formed in 140 characters or less; plaintiff attorney’s use of the Reptile Theory to scare jurors into punishing defendants; and distrust of police who are often “presumed guilty”. Litigation financing deserves specific discussion as it is being used more to fund plaintiff litigation. This practice involves third parties (plaintiff law firms and even private equity) “invest” in a plaintiff’s lawsuit earning a large return in the event the suit is successful, is widely unknown by the general public, and is not required to be disclosed to the jury in most cases. This opportunistic practice is becoming more and more prevalent as the potential returns continue to increase, driving longer more extensive litigation that ultimately leads to larger and more expensive claims.

With all of these factors contributing (and more), it is no surprise that the size of average jury awards has grown steadily over the last two decades as shown below.

Average Jury Awards, 1999 – 2020 (latest available)



These increasing awards include what have been termed “nuclear verdicts” where juries are awarding tens and in some cases hundreds of millions of dollars to the plaintiff(s). Public Entities, especially California Public Entities, are particularly susceptible to what are known as “nuclear verdicts” due to the type of services provided (law enforcement, road design, child services, etc.), and their perceived “deep pockets”. These incredibly large jury verdicts make taking cases to trial very risky, resulting in a propensity to settle at much higher amounts than in the past. Whether it is via jury award or settlement, the numbers just keep going up and up. Some of the largest public entity claims over the last ten years are shown below.

Loss Year	Description	Total Paid
1987-2017	Sexual Abuse (Class Action)	\$1,100,000,000
1983-2018	Sexual Abuse (Class Action)	\$700,000,000
2017	Sexual Abuse (Class Action)	\$464,400,000
2015	Methane Gas Leak	\$120,000,000
2015	Bus Shelter Collapse (Single Plaintiff)	\$115,000,000
2014	Child Abuse/Foster Care	\$113,400,000
2009-2014	Sexual Abuse (Class Action)	\$102,500,000
2011	Police Shooting/Wrongful Death	\$97,000,000
2021	Wrongful Conviction	\$75,000,000
2014	Dangerous Condition/Landslide	\$71,500,000
2016	Vehicle Accident/Fire Ambulance	\$65,750,000
2016	Wrongful Death	\$60,000,000
2015	Strip Search (Class Action)	\$53,000,000
2017	Vehicle Accident/Motorcycle vs Auto	\$46,000,000
2015	Vehicle Accident/Sheriff Vehicle	\$42,000,000
2014	Wrongful Conviction	\$40,000,000
2019	Wrongful Death	\$33,500,000
2014	Dangerous Condition/Vehicle Accident	\$32,500,000
2015	Sexual Abuse	\$31,000,000
2016	Dangerous Condition/Vehicle Accident	\$30,000,000

Unfortunately, some of the claims above are from PRISM members, and collectively we have had our share of large claims. In fact, over the ten-year period from 2011/12 through 2020/21 the GL1 members have experienced 928 claims that exceeded their self-insured retention (SIR). These claims collectively exceeded the collective SIRs by \$695 million for an average of \$69.47M per year. When an annual trend factor of 7% is considered, these numbers jump to 1,219 claims with a collective \$1.16 billion above SIR for an average of \$115.83M per year! This idea of trend is important as insurance carrier underwriters and actuaries apply some trend to the historical claim when trying to project future years' claims costs based on the historical losses. In recent years we have seen trend factors between 7% and as much as 13% used in these calculations.

It is also helpful to have a basic sense of how insurance carriers tend to look at appropriateness of premium. One measure that is used is loss ratio, or the ratio of dollars of incurred loss to dollars of premium. There is some variation, but liability carriers tend to underwrite to somewhere around a 65% loss ratio. In other words, they want to set their rates so that over the long term incurred losses will make up no more than 65% of the premium charged. This leaves room for expenses, provision for adverse loss experience and profit margin.

We often get questions from members who say, “my entity only has one bad claim that exceeds a certain layer, so why is the premium for that layer so high?” The hypothetical analysis below shows the impact of both trend and underwriting to a 65% loss ratio to that “only one loss in the layer” scenario. In this case the layer in question is the \$5M xs of \$10M layer, and the entity has only one claim with total incurred in that layer totaling \$2M. Based on this raw data, the 10-year average loss is \$200,000 and an implied premium based on a 65% loss ratio would be \$308,000. Once the 7% trend is applied, there are now four claims with total incurred in the layer, the average jumps to \$1.57M and the computed premium to over \$2M.

Ground Up Claims	DOL	Total Incurred	Untrended Incurred into *Layer	Years of Trend	Cumulative Trend Factor	Trended Incurred	Trended into *Layer
Claim 1	9/4/2013	\$7,750,000	\$0	10	1.97	\$15,245,423	\$5,000,000
Claim 2	2/22/2015	\$12,000,000	\$2,000,000	8	1.72	\$20,618,234	\$5,000,000
Claim 3	5/5/2017	\$9,500,000	\$0	6	1.50	\$14,256,938	\$4,256,938
Claim 4	4/18/2021	\$10,000,000	\$0	2	1.14	\$11,449,000	\$1,449,000
		10-Year Average	\$200,000			10-Year Average	\$1,570,594
		Premium (priced to LR)	\$307,692			Premium (priced to LR)	\$2,416,298

*Layer Limit	\$5,000,000
*Layer Attachment	\$10,000,000
Trend Factor	7.0%
Permissible Loss Ratio	65.0%

The preceding simplified model is applied to one hypothetical member and one layer of coverage. When instead you look at the incurred losses for the Program on the previous page and apply the same concept, it's easier to understand the premium increases that we have experienced.

Better Together

While member loss experience certainly is part of the larger problem, the GL1 Program remains part of the solution. The members are certainly better together. The collective size of the GL1 members allows us to withstand the kind of loss experience depicted above. We are able to leverage our volume to allow for greater self-funding (pooling), and to maintain relationships with our reinsurance carrier partners. We have been creative in our program structure to mitigate the costs increases, and to continue to provide the high excess limits that the membership needs. That being said, the Program will again see rate increases in the coming year, with individual member's changes

varying based on their own loss experience. This last part is important to note because the individual member loss experience is a big part of the premium allocation process and those with better loss experience will see less of an impact on their rates, while those loss leaders will see bigger increases. To accomplish this, the allocation includes an experience modification formula for losses in the lower, more predictable layers, and large loss surcharges in the excess layers.

Despite the increases that we've experienced in recent years, it is still much better to be part of the group as compared to individual entities who are facing the same environment on their own. The following are case studies of several "stand-alone" public entities and a couple of pools that we provide as examples of this:

1. **County** with very good loss experience was forced to increase their SIR from \$1M to 2M to go along with a 300% premium increase at 21/22 renewal. The county received another sizeable premium increase at their 22/23 renewal.
2. **City** with good loss history. The best terms available in the market at their 2020/21 renewal included a 300% premium increase and doubling of their SIR from \$500K to \$1M. The City instead joined the PRISM GL1 Program with a 79% premium increase and \$1M SIR.
3. **City** with only two losses above the retention in the past 10 years with the most recent loss 7 years ago. Renewal terms from the incumbent for 22/23 were at a 150% increase and included a full law enforcement exclusion.
4. **City** with a clean account over the past 4 years with a \$10M SIR. Market pushed a 15% increase for 2022/2023 – despite the fact that over the past 3 years the City had already absorbed increases of 75%.

Other California pools are experiencing difficult renewals as well:

1. **Pool** with good loss history had their SIR increased from \$5M to \$10M along with a 100% premium increase at the 2021/22 renewal. At the 2022/23 renewal they received an additional 25% premium increase.
2. **Pool** with a 20-year carrier relationship was informed that for 2021/2022 the carrier reduced their capacity from \$20M to \$10M and pushed the retention from \$5M to \$7.5M and with a 30% increase in rate. This was followed in 2022/23 with a 10% increase despite no losses over the past two years.

While our renewals in recent years have been challenging, PRISM members have fared much better than most, including the examples above. By staying the course, we will all benefit from our economies of scale, our leverage in the reinsurance markets, and our sharing of best practices to help manage risk and hard markets. PRISM members remain better together.

PRISM's Response

PRISM has always been proactive in managing the GL1 Program with our market allocation approach to help manage the members' costs. Over the last several years, the

Program has been loss challenged, causing some members to take on increased self-insured retentions (SIRs) and/or Individual Member Corridor Deductibles (IMCDs) to manage the increase in premiums. Both are effective tools to explore, and we are happy to work with you to determine if an increased SIR or IMCD is appropriate for you.

PRISM was also among the first Joint Powers Authorities in the nation to setup its own captive insurance company, PRISM ARC. The captive has been used strategically to earn greater investment returns on monies held to pay claims in the group corridor deductible layers. Public entities are very restricted in what they can invest in, impacting overall returns. The captive, while still very conservative, is not as restricted and can therefore generate higher yields. This is a benefit to PRISM members as it allows PRISM to discount the premiums to the members in anticipation of the investment returns.

Two years ago, we entered into a new agreement with one of the largest and most stable carriers in the world, Berkshire Hathaway, to provide reinsurance for the \$5M to \$10M layer. This proved to be immediately beneficial at their first renewal (7/1/22) when they agreed to an increase at just under 2.5%, which was lower than what loss development would have indicated. Based on preliminary meetings with Berkshire this year, we again expect to receive renewal terms for the 7/1/23 renewal. We also restructured the \$9M layer above \$10M to include a \$5M Program Corridor Deductible and added an additional quota share participant. Both moves allowed us to mitigate price increases and eliminate any member aggregate limits for the Program. For the \$6M x \$19M layer we successfully renewed with the same quota share partners and with the same terms and conditions as expiring. Finally, we secured optional excess limits to \$50 Million to meet the growing need for protection against the ever-increasing claim costs.

While PRISM's premiums will increase for 2023/24, the premiums are still less costly than an entity would likely be faced with outside of PRISM. A testament to the continued competitiveness of the Program are the seven new cities who joined the Program or who joined a member JPA over the last two years at considerable savings compared to their other stand-alone or JPA options. In addition to premium savings, those entities also avoided coverage restrictions and limitations that were quoted outside of PRISM.

Member's Response

There are several steps that can/should be taken during these turbulent times.

1. First, communicate the state of the market to all your stakeholders so there is an understanding that this is an industry-wide problem. We are happy to participate on conference calls or attend meetings to assist with this communication if so desired
2. The severity of claims is on the rise. If you are not yet participating in the Optional Excess Liability (OEL) Program, consider doing so. This Program provides three options of additional limits excess the GL1 Program: \$10M, \$15M or \$25M.
3. Anticipate an increase in your own SIR funding being suggested by your actuary.
4. It may be tempting to consider increasing your SIR to save premium dollars; however, this needs to be weighed against the increased cost to fund the higher

SIR. In addition, given these new severity trends, all things being equal, the bias should be toward transferring risk due to the uncertainty of these changing claim trends.

5. Vigorously defend the claims that are defensible.
6. In a hard market environment, the quality of loss data will undergo additional scrutiny. Make sure your data is in good condition.
7. Stay up to date on maintenance, inspections and trainings.
8. Finally, manage your individual risk by taking advantage of the best practices programs and service partner programs we offer.

To expand on the last point, PRISM Risk Control wants you to know that you are not alone while managing the multitude of risks facing your agency. Our team of specialists is here to help, whether by providing direct consultation or connecting you with one of our trusted partners. Regardless of the topic, we encourage you to reach out to the Risk Control team for assistance with your organization's risk management challenges.

We would also like to call your attention to a few services and resources we think you should be taking advantage of:

General Liability

- PRISM members are provided free access to [Labor Law/Employment Practices Services](#) through Eyres Law Group. The service provides members with unlimited telephone calls to ELG, email communications, and/or faxes to answer employment law questions as they arise. ELG also provides step-by-step-coaching and advice in a privileged context for employment law decisions and subsequent actions.
- PRISM Partner, [A-Check Global](#), provides an electronic platform that allows employers to monitor employee driving records on demand and provides automatic e-mail notification when a reportable event occurs. The system also includes a record management system.
- Staff has developed a [Resource Page](#) specifically for Law Enforcement. The page is designed to be a one-stop-shop for law enforcement related resources including POST approved training, and PRISM service partnerships.
- The [School Liability Handbook: Student Activities and Employment Issues](#) was created in conjunction with Lozano Smith, a law firm specializing in school liability legal services. The Handbook consists of 5 modules, such as School Activities and the Law and Employment Issues for School Districts.
- PRISM staff developed a pair of resource documents designed to assist members with [Road Maintenance](#) risk. These documents include discussions regarding the use of Geographical Information Systems and other general design and maintenance best practices.

Talking points for the GL1 Program

Individual Claim Examples

To describe the effects of social inflation on claims, below are several summaries of recent jury verdicts and settlements, many of which involve members of PRISM's GL1 and GL2 Programs:

- Jurors awarded \$45.4 million against a southern California county to a girl who suffered sexual abuse for two years in a home where she was left despite evidence showing that an accused molester lived in the house.
- Jurors awarded \$33 million against a southern California county in a wrongful death case where the deceased attacked several county road workers while under the influence and was killed during the altercation.
- A southern California city was sued for dangerous condition of public property after a 16-year-old was struck by a car crossing a street at a crosswalk near his school. The driver of the vehicle was looking for an item that was on the floor of the passenger seat when he struck the teenager. The teen survived but has multiple injuries including a brain injury. A jury found there to be a dangerous condition and awarded over \$23 million against the City.
- A northern California county was sued after a family's vehicle was struck in an intersection late at night by a law enforcement vehicle that was responding to a call without lights and sirens on. Several members of the family were injured, and one young child was left with permanent brain damage. The case was settled for approximately \$27 million.
- A southern California city agreed to pay \$21 million to resolve a case for wrongful conviction of a man who was incarcerated for 30+ years.
- A southern California city settled a claim for injuries sustained due to a trip and fall on a city trail for \$11.2 million.
- A southern California city agreed to pay \$12.5 million to resolve a case in which a driver struck and killed a baby and injured the father of the child. The city was sued for dangerous condition of public property as the driver claimed his view was obstructed by foliage.
- A southern California county agreed to pay \$12M in a post-trial settlement to the family of a man who died after sheriff's deputies restrained him during his arrest. A jury had originally awarded \$85M to the family, but a settlement was reached as the County prepared its appeal of the case (there is some hope to be found here!)
- A northern California city paid \$12 million to settle a case in which a motorcyclist was struck in an intersection by a police car that was responding to a call. The injured motorcyclist lost a leg in the accident.

Aggregate Claims Trends

- As both frequency and severity have risen for the GL1 Program, just like the general liability industry, the claims trend and lack of capacity will result in anticipated rate increases.
- The natural result of this significant change in losses is that PRISM has adjusted forecasts and rates to account for new loss trends, as have our carriers.

The total number of claims in the GL1 Program over \$1M in the last five years has more than doubled. This is a big indication of how jury verdicts (and settlements) are increasing!

Benefits of Being in a Pool

Economies of scale benefits

- Access to insurance options. PRISM's size provides more leverage in the insurance market. It also allows access to the reinsurance markets, which are not available to individual buyers, thus expanding the universe of available coverage options. PRISM has been able to leverage this access and the Program's premium volume to secure unique and beneficial reinsurance agreements.
- Maintaining broad coverage. Public agencies with stand-alone placements are seeing reductions in their coverage limits and/or exclusions. Although GL1 continues to face the potential for coverage restrictions, PRISM has largely been able to maintain broad coverage in the Program.

Equitability

- PRISM's members with large loss experience have better coverage and premium options in the pool than finding coverage alone, but members with less severe loss experience also receive benefits from pooling as they are recognized and rewarded through premium reductions.

General Market and Program Information

- The size of our program, with 129 members, more than \$7.8 in payroll and 765,000 ADA, offers great purchasing power to our members and provides much greater stability than smaller programs or individual risks.
- The liability market continues to harden. We continue to see a significant increase in plaintiff demands and high dollar liability claims. Jury verdicts (and settlements) are much higher than they have been in years past and that is affecting the industry's surplus.
- There are many factors causing this including tactics plaintiff's counsel are using (such as the use of the Reptile Theory) to drive up claims' verdicts and settlements. The selection of appropriate defense counsel, who are experienced in dealing with these tactics, has never been more important.

- Markets continue to be more judicious with how and where they deploy their capacity and/or limit their exposure, with some leaving the market entirely. The overall “supply” of limits has been reduced by more than 50% in the last five years. The size, stability, and premium volume of the GL1 Program have attracted markets that may not consider participation otherwise.
- We have always been proactive in our management and funding approach, and this remains the same today. One of the strengths of the GL1 Program is the active involvement of the Underwriting Committee and their ability to be flexible. This approach often means modifying the Program structure and the Program's retained risk to keep premiums as low as possible for the members.
- We are not unique in experiencing rate increases for liability coverage as the claims environment in California and across the nation is increasingly adverse for public entities.
- Our membership has increased in each of the last few years with seven new members joining the GL1 Program since 2021/22. This shows that the Program is still competitive in the market.
- The benefits of pooling shine brightest during a hard market when our economies of scale, our leverage in the reinsurance markets and our sharing of best practices help our members manage risk.





COMMITTEE AGENDA REPORT

Meeting Date: 09-25-2023
Dept. Head: Karen Jassoy
Submitted by: Kevin Woo & Karen Jassoy
Department: Finance
Approved by: Kyle Swanson, CEO/GM

SUBJECT: EXTENSION OF THE CURRENT AUDIT CONTRACT WITH THE PUN GROUP TO COVER AUDIT OF FY '24 – FY '26

RECOMMENDATION(S):

Recommend the full Board authorize extending the audit contract with The Pun Group for an additional three year period (FY '24 through FY '26).

ALTERNATIVE(S):

Do not extend contract with The Pun Group and instead issue a Request for Proposals (RFP) for new auditors.

ATTACHMENT(S):

1. The Pun Group Audit Proposal (2021).
2. The Pun Group Audit Contract Extension Proposal (FY '24 through FY '26).
3. CFO Journal Article regarding Auditor Rotation
4. Feedback letter to the PCAOB

FUNDING:

Requested amount: N/A

Budgeted amount:

Are funds available? ☐ Yes ☐ No

Project cost to date:

PRIOR BOARD/COMMITTEE CONSIDERATION:

STRATEGIC PLAN IMPLEMENTATION:

This agenda item is consistent with the District's Strategic Business Plan and meets one or more of the following Strategic Objections: Customer Experience; Fiscal Stability; Operational Excellence, Sustainability and Resource Management; Talent Management; Technology and Innovation.

Reviewed by:	Action Required:	Policy Updates:	Action Taken:
Dept Head <input checked="" type="checkbox"/>	Motion <input type="checkbox"/>	Rules & Regulations <input type="checkbox"/>	As Recommended _____
Finance <input type="checkbox"/>	Resolution <input type="checkbox"/>	Standard Practices <input type="checkbox"/>	Reso/Ord. No. _____
Legal Counsel <input type="checkbox"/>	Ordinance <input type="checkbox"/>	& Policies	Other _____
Standard Form <input type="checkbox"/>	None <input type="checkbox"/>		

EXECUTIVE SUMMARY:

On April 21, 2021, Padre Dam's Board of Directors selected The Pun Group to perform auditing services for the District. The initial audit contract term was for three years (FY '21-FY '23) with the option to extend the term by mutual consent of the parties. Staff is recommending that the Board extend the contract with The Pun Group for another three year term (FY '24-FY '26), which complies with Government Code Section 12410.6.

BACKGROUND:

Padre Dam contracts with independent Certified Public Accounting (CPA) firms to perform the District's annual audit. The selection of the District's auditor is a rigorous process that includes issuing a Request for Proposal (RFP), reviewing submitted proposals and scoring various criteria including firm experience, staff experience, quality of proposal, audit plan and audit fee. Professional standards also require an auditor be independent of their clients to ensure they approach each audit with necessary professional skepticism. The auditors must also meet the licensing requirements of the State of California and be in good standing with the California Board of Accountancy.

The District's typical audit contract term is three years with the option to extend the term to allow for consistency and value-added services. The District's previous auditor provided services from FY '09 through FY '20; the initial audit contract covered FY '09 through FY '11 and the Board approved three separate three-year extensions. Based on staff's recommendation, The Pun Group was selected by the Board in 2021 to provide auditing services for a 3-year term (FY '21 – FY '23). The current contract will expire once the FY '23 audit is complete.

The Pun Group

The Pun Group is a highly-respected CPA firm with extensive experience in the water/wastewater sector.

Staff's recommendation of The Pun Group was based on a formal review of audit proposals received in response to the District's RFP. The Pun Group's Proposal and Audit Plan set them apart from other proposers. Their Proposal was the most complete and effectively addressed the environment at the time (i.e. working remotely during the pandemic) as well as upcoming Governmental Accounting Standards Board (GASB) rule updates. In addition, their Proposal highlighted their embrace of technology to improve the audit process by offering unique solutions to file sharing, task tracking and mitigation of audit risk and vulnerabilities through their use of MindBridge. MindBridge is an artificial intelligence (AI) platform designed to analyze volumes of data and recognize patterns and connections between transactions in a fraction of the time it would take to manually uncover risk using traditional methods (i.e. the AI platform analyzes 100 percent of transactions rather than a subset of transactions).

Over the past three years, The Pun Group has lived up to staff's expectations. The firm is professional, well organized and knowledgeable. Not only are they responsive during the audit but also answer questions throughout the year to ensure staff correctly implements new accounting pronouncements. Over the past three years The Pun Group has helped staff implement new major GASB pronouncements for leases (GASB 87) and subscription IT software (GASB 99), complete our single audit requirement related to federal grant revenue, maintain comparative financial statements with implementation of new GASB rules instead of preparing only single year statements, and stay up to date on new developments with webinar training.

Recommendation to Extend The Pun Group's Audit Contract

There is a significant learning curve involved with every audit. During the first few years, a great deal of time is spent educating auditors on District operations, processes, administration, policies and software. In subsequent years, after the auditors have a good understanding of District operations, the audit becomes more efficient, constructive and valuable; instead of spending time gathering information and documenting processes, the auditor is able to dig in deeper, focus on specific areas, ask educated questions, and more easily identify anomalies. The District is at this point with The Pun Group. Staff believes that a three year extension of the contract with The Pun Group would benefit the District by providing a very thorough audit by a firm that understands our operations and can more easily confirm the District complies with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) standards.

At staff's request, The Pun Group provided a proposal for an audit services contract extension (see Attachment 2). The current contract price is \$31,827 for Padre Dam's audit and \$15,000 for the East County Advanced Water Purification Audit for a total of \$46,827. The Pun Group's competitive quote for a three year contract extension is as follows:

Services Provided:	2023-24	2024-25	2025-26
Financial Audit of the District	\$ 34,000	\$ 35,700	\$ 37,485
Financial Audit of the ECAWP	\$ 16,000	\$ 16,800	\$ 17,640
Grand Total:	\$ 50,000	\$ 52,500	\$ 55,125

Auditor Rotation Requirements for Annual Audits of Local Governments

California Government Code §12410.6(a) requires that audits of local agencies be made by a certified public accountant or a public accountant, licensed by, and in good standing with, the California Board of Accountancy. In 2014, the California state legislature passed Assembly Bill 1345, which added §12410.6(b) to the Government Code. Section 12410.6(b) requires that the lead audit partner on an engagement be rotated after six years. There is no requirement to rotate audit firms.

The Public Company Accounting Oversight Board (PCAOB) spent three years analyzing and considering feedback on the concept of auditor rotation. Attachment 3 is an article from the CFO journal that provides insight into the response from the PCAOB's *Concept Release on Auditor Independence and Audit Firm Rotation*. The following excerpts are from one of the feedback letters the PCAOB received. The full letter is provided as Attachment 4.

"Because audit engagements with short tenure are relatively riskier than those with a longer tenure, mandatory audit firm rotation could contribute to a decrease in audit quality. Audit quality may suffer in the early years of an engagement because the auditor does not understand the client's business as fully as he or she does in subsequent years after more experience with the client. The Cohen Commission reported that in its "study of cases of substandard performance by auditors, several of the problem cases were first- or second-year audits." Also, according to a survey by the Government Accountability Office, 79% of larger audit firms and Fortune 1000 companies believed changing audit firms increases the risk of an audit failure in the early years of the audit."

"Professional auditing standards require the auditor to gain an understanding of the client that is sufficient to plan and perform an effective audit. There is a certain amount of learning time necessary to gain the familiarity with a company and its operations that is necessary for an effective and efficient audit. Mandatory audit firm rotation would result in the loss of vast stores of institutional

knowledge and guarantee that auditors would be climbing a steep learning curve on a regular basis, especially in audits of multi-national companies where there are many people involved in learning and understanding the business complexities. Rotating the entire engagement team actually creates a greater risk from an audit quality perspective because new auditors need to learn about the client's business, accounting processes, complex transactions, etc."

RECOMMENDATION:

Recommend the full Board authorize extending the audit contract with The Pun Group for an additional three year period (FY '24 through FY '26).

PADRE DAM MUNICIPAL WATER DISTRICT

Submitted By:

Coley Delaney, CPA

Partner

4365 Executive Drive, Suite 710

San Diego, CA 92121

(858) 242-5101 | coley.delaney@pungroup.com

March 12, 2021

PROPOSAL

Annual Audit Services

Image Credit: Shutterstock (Royalty-Free)





Kenneth H. Pun, CPA, CGMA
Founder & Managing Partner

WHY CHOOSE THE PUN GROUP LLP?

“ The Pun Group’s most valuable asset is our people, they and their deep experience drive our every interaction with clients. ”

- Big firm expertise, small firm values
- Personal attention meets technical expertise
- A unique firm culture
- Innovation embraced
- Achievable plans to move your organization forward

The Pun Group LLP is recognized for its professionalism, integrity, and providing clients with practical solutions unique to their circumstances and issues. You will receive a superior level of service and a quality audit.

Thank You!

Thank you for allowing us to submit our qualifications to provide you with Professional Auditing Services.

The Pun Group LLP
Certified Public Accountants and Business Advisors

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The Pun Group Wins 2021 “Best of Accounting” Award



The Pun Group is proud to have won 2021's Best of Accounting® award from ClearlyRated. ClearlyRated recognizes the best in staffing, accounting, and other professional services by recording Net Promoter Scores® (NPS) and reviews to measure client satisfaction.

This award is unique in the U.S. and Canada because it is the only accolade that relies solely on ratings submitted from third-party validated survey responses. Firms that receive a ClearlyRated award are recognized as “leading their industry through their ongoing commitment to service excellence.” The Pun Group received a positive 75% NPS, reflecting an exceptionally loyal and satisfied audience.

Our firm excelled in five key areas: Responsiveness, Quality, Value, Needs Understanding, and Proactive Approach.

About ClearlyRated

Rooted in satisfaction research for professional service firms, ClearlyRated utilizes a Net Promoter® Score survey program to help professional service firms measure their service experience, build an online reputation, and differentiate on service quality.

“

“The Pun group has always provided exceptional service. They are always there to answer any questions we have throughout the year.”

Kathleen J.

“

“In all these years they have been wonderful to work with and responsive.”

Graciela S.

“

“The Pun Group returns our calls promptly, provides responses to our questions because they have a thorough understanding of our needs and of the District, and are proactive in their approach to helping us. Also, the majority of the Board really likes that Ken Pun himself comes and presents the audit to them.”

State & Local Client

“

“I really appreciate in such a difficult time, The Pun Group continually provides valuable webinars, not only to extend our knowledge but also to provide us the updated status. Thank you!”

Anonymous Client

Padre Dam Municipal Water District



March 12, 2021

Padre Dam Municipal Water District
Mr. Kevin Woo, Accounting Manager
9300 Fanita Parkway
Santee, CA 92071

Dear Mr. Woo:

Please allow us to introduce our Firm and share our qualifications and proposed audit plan for the Padre Dam Municipal Water District (the "District") according to your Request for Proposals for Professional Auditing Services for Fiscal Years June 30, 2021, through June 30, 2023.

The Pun Group LLP (the "Firm") has the knowledge and experience necessary to become the District's next public accounting firm, and the work plan to ensure a smooth audit process.

This letter is an acknowledgment of the Firm's understanding of the work to be performed. We are offering our commitment to deliver all of the required work, complete the audit, and issue the necessary auditor's reports within the periods outlined by the District.

The Pun Group is the right choice for the Padre Dam Municipal Water District because:



We Understand the Demographics and Your Needs. The Pun Group is reputable for its governmental practice. We are the principal auditors for districts such as Alameda County Water District, Central Basin Water District, Marina Coast Water District, Olivenhain Municipal Water District, Santa Fe Irrigation District, as well as cities such as Coachella, Desert Hot Springs, Palm Springs, and several others. Accordingly, we have a deep understanding of the current issues municipalities are facing, such as varying demographics, economic environments, and the constantly changing landscape of laws and regulations.



Recognized Leader in the Governmental Industry. The Pun Group is a proven leader in professional services to the government sector. We are the Firm of choice for several cities, special districts, transportation agencies, and medical centers. We strongly believe that part of our success is credited to our professionals' participation with various industry-leading organizations. Such affiliations are critical to addressing emerging accounting and auditing issues within the industry environment.

The Firm is a member of the AICPA Governmental Audit Quality Center and has demonstrated our commitment to audit quality, including those performed under Government Auditing Standards and the Uniform Guidance. In addition, we received the SARC's *Award for Excellence in Knowledge, Value, and Overall Client Satisfaction* (2020). This award results from positive feedback from our clients in an independent survey, demonstrating our Firm's highest commitment to Federal standards, quality, and client satisfaction.

In addition, the Firm has received the "2021 *Best of Accounting*" award from Clearly Rated for providing remarkable service to our clients, earning 4.7 out of 5 stars.



4365 Executive Drive, Suite 710, San Diego, California 92122

Tel: 858-242-5100 • Fax: 858-242-5150

www.pungroup.com

Padre Dam Municipal Water District



You'll Work with a Team that Embraces Innovation and Continuous Improvement. Our Firm is committed to continuous improvement as it relates to service delivery. We embrace innovation and identify areas of technological enhancements in our audit and project management approaches. For example:

Secure Data File Transfer System. In order to improve audit efficiency, workflow management software plays an essential role between your organization and our engagement team. We employ a secure data file transfer system called Suralink. Suralink's dynamic request list is integrated with our secure file hosting system for seamless document-request coordination, including the upload of large-size files. It means all our requests are in one place, updated in real-time, and accessible by everyone working on the engagement. You, as a client, no longer have to manually maintain a spreadsheet amongst several people only to repeat the process in a day or two. Not only makes the operation more cost-efficient, but it also enables you and your team to spend your time getting the job done, not reconciling a messy list of outstanding items. In addition, Suralink's dashboard allows you to visualize the process of the document-request fulfillment.

AI Auditor. The Pun Group leverages the technology and research tools required to provide excellent services to its clients. With the usage of Artificial Intelligence (AI) technology, the Firm is capable of issuing all reports requested faster than other audit firms, without exposing the District to unnecessary risks.

Remote Auditing Capability. Remote working arrangements have suddenly become the "new normal" in these trying times. Our Firm has deployed top-notch technology and fully transitioned to "remote auditing," offering our clients the quality services they deserve while being fully "remote" or operating in a "hybrid" schedule. "On-site" audits are still the Firm's preferred method, and we'll continue to offer and promote those as well.



Knowledge is Shared with You. As part of our pledge to keep you updated on new technical accounting and financial issues, we implemented our 2021 *Virtual Government Accounting Conference*, which qualifies for up to 15 hours of CPE – double of the industry's standard. These online sessions are free of charge and part of the service package provided to you. More details and dates can be found on the "*Client Training Webinars*" topic under this proposal.

The Firm has licenses in the States of California, Arizona, and Nevada. All key engagement team professionals are licensed to practice as Certified Public Accountants and meet the Continuing Professional Education requirements under US GAO's Government Auditing Standards to perform the proposed audits. The partners and all employees proposed to perform the audit do not have a record of substandard audit work nor have any outstanding claim of substandard practice or unsatisfactory performance pending with the State Board of Accountancy or other professional organizations.

This proposal is a firm and irrevocable offer valid for 120 days from the date of submission. In addition, we hereby acknowledge the receipt of the Q&A dated March 4, 2021.

Finally, we would like to emphasize one additional point: **We want to earn your trust and win your business!** We are confident that the energetic and experienced team we have assembled is the right one for the District.

Our commitment to serving the Padre Dam Municipal Water District cannot be adequately conveyed in a letter, and I look forward to continuing the discussion with you. I'm assigned as your primary contact for contract negotiations and stand steadfast to serve as your engagement partner. I'm authorized to bind the Firm legally. Should you have any questions or wish to discuss this proposal, please do not hesitate to contact me at (858) 242-5101 or by email at coley.delaney@pungroup.com.

Sincerely,

Coley Delaney, CPA
Partner | The Pun Group LLP
4365 Executive Drive, Suite 710, San Diego, CA 92121

License to Practice in California

Affirmative Statement – License to Practice in California

The Firm and all key professional staff are licensed by the State of California to practice as Certified Public Accountants and meet the Continuing Professional Education requirements under US GAO's Government Auditing Standards to perform the proposed audits.

Firm Registration:

California State Board of Accountancy Number – PAR 7601

Federal Identification Number – 46-4016990

Insurance

If selected, the Firm will maintain the minimum insurance requirements during the entire execution of the agreement with the Padre Dam Municipal Water District. Within ten (10) days from the implementation of the contract, we will furnish the Padre Dam Municipal Water District with satisfactory evidence of the insurance requirements and proof that each carrier is required to give at least 30 days prior written notice of the cancellation of any policy during the entire period of the agreement. The Padre Dam Municipal Water District will be named as an additional named insured under the Firm's policies.

Independence

Affirmative Statement – Independence

The Pun Group LLP requires all employees to adhere to strict independence standards concerning the Firm's clients. These independence standards exceed, in many instances, the rules promulgated by the American Institute of Certified Public Accountants (AICPA).

The Pun Group LLP certifies that it is independent of the Padre Dam Municipal Water District. The Firm meets independence requirements defined by the United States Government Accountability Office's (US GAO's) Government Auditing Standards and the American Institute of Certified Public Accountants (AICPA). Based on that, we have not identified an instance that constitutes a conflict of interest relative to performing the services requested by the District.

The Firm had no relationship with the Padre Dam Municipal Water District during the past five (5) years.

The Firm will give the Padre Dam Municipal Water District written notice of any professional relationships entered into during the period of the engagement.

Firm Qualifications and Experience

About the Firm

The Pun Group ^{LLP}, Certified Public Accountants, and Business Advisors, founded in 2012, is a limited liability partnership. We are a full-service accounting firm comprised of forty (45) professionals providing auditing, accounting, and advisory services to our clients. Our Governmental Division consists of forty (40) full-time individuals.

The Firm is an Equal Opportunity Employer and complies with all Federal and State hiring requirements.

The Firm has become one of the “Top Accounting Firms” in Orange County according to the Orange County Business Journal and is also on the list of CalCPA Top 150 firms.

The combination of our hands-on experience and practical knowledge exercised by our audit professionals makes the Firm unique in our field. Our technical expertise and thorough understanding of current regulations and issues—along with the Firm’s commitment to hard work, integrity, and teamwork on every engagement—enable us to help our clients succeed.

Our Partners’ Group—which includes Kenneth Pun, Coley Delaney, Vanessa Burke, Kenneth Macias, John Georger Jr., Gary Caporicci, Frances Kuo — provides auditing, accounting, and advisory services to numerous governmental entities throughout the United States. With more than two hundred (200) years of combined experience in the industry, we have become a trusted business partner and are well-respected as leaders in the industry in one of the fastest-growing firms. With nearly 100 government and not-for-profit audit clients, our Partners have a real passion for the industry and believe we are unmatched regarding our municipal experience. The firm also meets professional standards generally accepted in the United States of America and the standards applicable to financial audits contained in ‘Government Auditing Standards’ issued by the Comptroller General of the United States.

The Firm’s headquarters are located in Orange County, California, with four branches in San Diego, Walnut Creek/Sacramento (California), Las Vegas (Nevada), and Phoenix (Arizona).

Our *San Diego* office, located at 4365 Executive Drive, Suite 710, San Diego, CA 92121. Will perform the requested services for the District. However, we may assign additional staff from our other offices to the engagement at no extra cost to the District. No hiring of subcontractors or joint-venture will be established for this engagement.

Global Capabilities

The Pun Group ^{LLP} is an independent member of Allinial Global, an association of over 100 independent accounting and consulting firms. Based in North America, Allinial Global offers international support by connecting its member firms to providers and global networks of accounting firms worldwide.

OUR FIRM AT A GLANCE



45 full-time auditing, accounting, tax and advisory professionals



One of the fastest growing firms serving California, Nevada and Arizona



Client retention rate:
90 – 95%



5 offices across
3 states



OUR AFFILIATIONS



Full-Time Government Auditors

As full-time government auditors, we understand that governmental entities do not operate independently but in an increasingly complex web of local, state, and federal relationships. We know how these relationships work, what they mean at the local level, and how every public organization's focus on resource management is critical to success.

Also, while many accounting Firms can provide services, not all can build an excellent working relationship with their clients. The Pun Group LLP prides itself on developing lasting, personal relationships with our clients. Our hands-on partner involvement and low personnel turnover are crucial tools to our success and highly beneficial to the District.

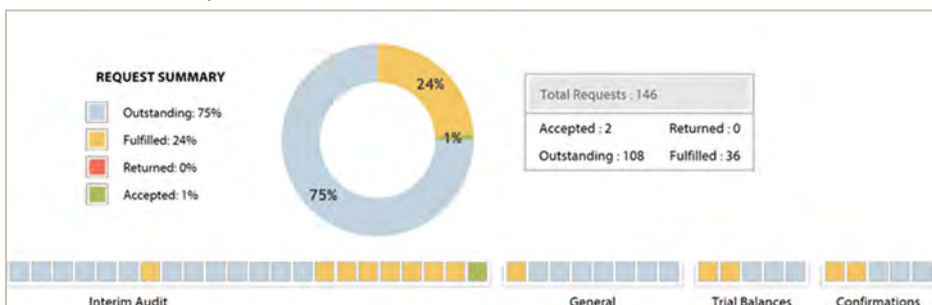
Local Office's Information Technology (IT) Audit Capabilities

The Pun Group LLP continues our efforts to invest in our IT system to enhance our security further and promote audit efficiency.

Top security for your data is the key to our success. When we have your data virtualized, our Firm takes all the preventive steps to avoid putting your information at risk. Our In-House IT administrator maintains our server to ensure our IT environment is continuously updated with the latest security fixes. Through VPN and Microsoft Remote Desktop, our In-House network administrator can lockdown files and system access from a single point, limiting the ability for remote sites to take data from our server.

Access to systems from anywhere and anytime. With more mobility being the norm rather than the exception, our engagement team needs robust access to the engagement files when they are working in your office. Accounting and Auditing Software applications are installed in our "Private" server and can be securely accessed through VPN and Microsoft Remote Desktop. The Firm uses CCH ProSystem fx® Engagement for audit documentation, which allows real-time synchronization of the work papers and instant collaboration quality control review.

Secure Data File Transfer System. In order to improve audit efficiency, workflow management software plays an essential role between your organization and our engagement team. We employ a secure data file transfer system called *Suralink*. *Suralink*'s dynamic request list is integrated with our secure file hosting system for seamless document-request coordination. It means all our requests are in one place, updated in real-time, and accessible by everyone working on the engagement. As a client, you no longer have to manually maintain a spreadsheet amongst several people only to repeat the process in a day or two. Not only makes the operation more cost-efficient, but it also enables you and your team to spend your time getting the job done, not reconciling a messy list of outstanding items. The *Suralink* dashboard, as shown below, allows you to visualize the process of the document-request fulfillment.



BIG FIRM EXPERTISE. SMALL FIRM VALUES.

Our professional backgrounds at major national firms showed us how to solve complicated business and accounting challenges, but the sense of personal connection was missing.

We launched The Pun Group because we believe every client deserves to work with experienced business advisors and CPAs who have the time – and take the time – to create an authentic connection. Every client is our top priority!



A UNIQUE CULTURE.

"Personalization" is not just a buzzword – it's part of our firm's culture. We take a personal approach to everything we do. We collaborate with our clients, so they're always part of the process. We listen to our staff to make sure they have the right support and resources to do a great job. Getting to know others and discovering how we can serve them better is not just a sign of good business practices; it's a sign of good people.



INNOVATION EMBRACED.

New ideas keep you ahead of the game. From leveraging the value of emerging technologies to further refining trusted processes, we adopt proven solutions to meet your needs.



WHERE YOU GO, WE GO. WHERE YOU GROW, WE GROW.

Our success is defined by how you achieve yours. Partner with accomplished accounting and financial professionals who are laser-focused on taking your business to the next level.

Padre Dam Municipal Water District

Our Services

Our partners and seasoned professionals are always available, guiding clients through their periods of rapid growth as well as difficult times. We are able to do that by offering a portfolio of accounting services that is as diverse as the jurisdictions and entities themselves. The Pun Group ^{LLP} has successfully provided professional auditing, accounting, financial reporting, and management advisory/consulting services to a broad spectrum of governmental entities.



Cannabis Compliance Services

Many cities are now authorizing commercial cannabis to operate within their local jurisdiction. Compliance issues are common in California's newly regulated cannabis industry, which is no surprise given the complexity of the state's regulatory landscape.

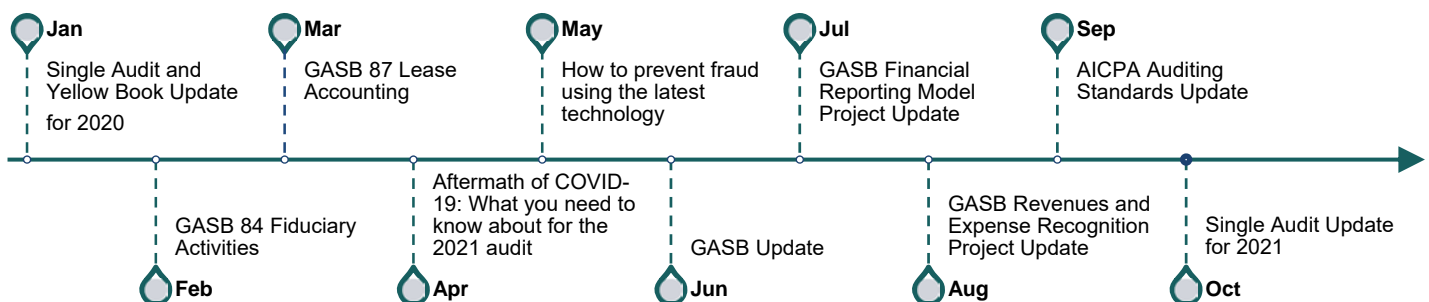


The Pun Group ^{LLP} has developed a platform to guide government agencies and commercial enterprises through the new and challenging steps in this emerging market. We have partnered with *Simplifya*, which has developed a cloud-based government agency/licensee compliance solution. *Simplifya*, headquartered in Denver, Colorado, and at the forefront since legalization in Colorado, has been an industry leader in commercial cannabis compliance since 2016. This new software allows government agencies to monitor their licensees at every stage of the approval process, from initial licensing to renewal and continuing disclosure requirements. Your communities demand that these new cannabis businesses are operating based on the ordinances that you have passed. We can help ensure businesses are working in compliance, and when they are not, your team receives an immediate notification.

The Pun Group ^{LLP} has proven itself as a leader in the assurance and advisory field in the government arena. With the addition of *Simplifya* to our service offering, we have strengthened our position as a leading firm to help with your compliance needs and in unconventional areas, as they emerge.

Client Training Webinars

We pride ourselves in leading the governmental auditing profession nationwide and statewide. Members of our team have been assigned to the AICPA and State Government Accounting and Audit committees. Our membership with these two levels of government keeps us current, and such involvement helps our Firm with the constant changes in accounting and auditing standards, laws and regulations, and compliance provisions, which have created an unprecedented complexity in public accounting for state and local governments. Every year, the Firm hosts a conference to update governmental clients on new technical accounting and financial issues. This year, by implementing "Virtual Webinars," we're expanding our horizons and offering our clients 15 hours of Continuing Professional Education (CPE). These sessions are **free of charge** and part of the service package provided to our clients. Following is our 2021 *Virtual Governmental Accounting Conference* schedule:



Peer Review

Being a member of the American Institute of Certified Public Accountants (AICPA), The Pun Group LLP is required to obtain an independent peer review of our audit and accounting practice every three (3) years. The peer reviewer assessed the Firm's quality-control policies, reviewed administrative records, interviewed professional personnel, and inspected the Firm's working papers and reports from a representative sample of accounting and auditing engagements, including governmental audits. The reviewer concluded that the Firm fully complied with the AICPA's stringent standards for quality control and issued a peer review rating of "Pass."

A copy of our most recent peer review is presented.



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Report on the Firm's System of Quality Control

December 7, 2018

To the Partners of
The Pun Group, LLP
And the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of The Pun Group, LLP, (the firm), in effect for the year ended December 31, 2017. 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 (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

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. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

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.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act, and an audit of an employee benefit plan.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of The Pun Group, LLP, in effect for the year ended December 31, 2017, 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*. The Pun Group, LLP, has received a peer review rating of *pass*.

EFPR Group, CPAs, PLLC

EFPR Group, CPAs, PLLC
Corning, NY

Padre Dam Municipal Water District

Federal or State Desk Review

No federal or state desk reviews or field reviews have been undertaken of any audits performed by the Firm or any of its partners, managers, or professionals during the past three (3) years.

Disciplinary Action

State regulatory bodies or professional organizations have taken no disciplinary action against the Firm or any of its partners, managers, or professionals during the past three (3) years.

The Firm has no conditions such as bankruptcy, pending litigations, planned office closures, mergers, or any organizational conflict of interest that may affect the ability of the Firm to perform the required duties requested by the Padre Dam Municipal Water District.

Partner, Supervisory, and Staff Qualifications and Experience

Who We Are

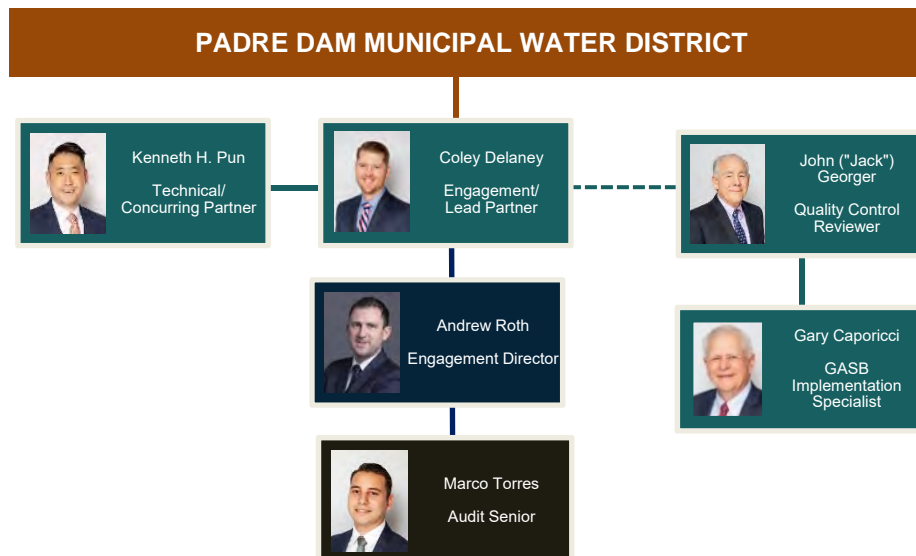
The engagement team was carefully selected to provide the District with all the services needed to complete the audit successfully. Your assigned Engagement and Technical Partners will be personally involved in the project, leading a team that has significant experience in *governmental auditing*. You can be confident that our broad experience and technical capabilities will allow us to provide technical support, interpret findings, and offer practical solutions to any issues that may arise.

About Your Engagement Team

The personnel assigned to this engagement are fully qualified to perform an effective audit of the District, and their extensive experience will be critical to the audit process. Our professionals are familiar with the complexities of governmental accounting, auditing, and financial reporting, including but not limited to all GASB pronouncements, the Single Audit Act, Uniform Guidance (formerly known as OMB Circular A-133), and fund operations. They have held positions as professional certified public accountants, as well as held significant roles within and outside of government agencies. Such qualities will bring to an entity like the Padre Dam Municipal Water District the thought leadership, quality, and level of experience it requires.

Because of the “familiarity threat” under the professional audit and independence standards that may exist in long-term relationships with audit firms, the Firm is committed and has sufficient resources to rotate engagement partners, managers, and or supervisors assigned to the District’s audit with personnel with similar or higher qualifications and experience in order to overcome this threat.

If the Firm changes key personnel, we will provide the District with a written notification. **Engagement partners, managers, and specialists will only be changed with the express prior written permission from the District.** Audit personnel may be replaced only by those with similar or better qualifications and experience.



Padre Dam Municipal Water District



Coley Delaney, CPA | Engagement/Lead Partner

Coley Delaney is a Partner within The Pun Group LLP's Assurance division. In his fifteen (15) years of accounting and auditing experience. He has performed audits and other attestation services for several governmental agencies throughout California, including cities, counties, transportation agencies, public financing authorities, housing authorities, redevelopment agencies, and special districts. He is a Certified Public Accountant.

Mr. Delaney will oversee the engagement team, engagement planning and performance, review for quality, and approve work papers and reports. He will be responsible for the timely delivery of all services to the Padre Dam Municipal Water District.



Kenneth H. Pun, CPA, CGMA | Technical/Concurring Partner

Kenneth Pun is the Managing Partner and an Assurance Partner at the Firm. With over twenty-one years of public accounting experience in the state and local government sector, he specializes in audits, management, and consulting for governmental organizations. Mr. Pun has served as the Contract Deputy Finance Director for the City of San Marino in 2017. He has served as the Chair of the California Society of CPAs Governmental Auditing Accounting Committee. He is a Certified Public Accountant and a Chartered Global Management Accountant.

Mr. Pun will act as the Technical/Concurring Partner and provide a second partner review of significant high-risk areas, audit reports, and resolution of significant accounting, auditing, and reporting matters.



John ("Jack") F. Georger, Jr., CPA, CIA, CGMA | Quality Control Reviewer

Throughout his forty years of experience, Mr. Georger has spent many years in Big 4 and national firms. He worked diligently alongside numerous governmental municipalities, including cities, counties, and transportation agencies, as well as not-for-profit entities, providing clients with financial and compliance auditing as well as consultation services. Mr. Georger annually instructs over 300 hours in accounting and auditing subjects and has authored training material in governmental accounting and auditing for the AICPA. Mr. Georger is also the technical reviewer of the CCH Knowledge-Based Audits™ of State and Local Governments with Single Audits, GAAP Guide (FASB), and Governmental GAAP Guide (GASB), the gold-standard for audit firms throughout the United States. As the Chief Quality Officer in our Firm, he advises clients with their complex accounting questions and supports the engagement team with audit issues. He is a Certified Public Accountant, a Certified Internal Auditor, and a Chartered Global Management Accountant.

Mr. Georger is responsible for reviewing all reports issued by the Firm to ensure the utmost quality and compliance with professional standards and the final quality-control assessment within the engagement.



Gary M. Caporicci, CPA, CGFM, CFF | GASB Implementation Specialist

Gary Caporicci is an appointed member of the State Controller's Retirement Advisory Committee. Mr. Caporicci is a leading expert and has authored and taught the courses for CalCPA and AICPA on GASB 68, *Accounting and Financial Reporting for Pensions*, and on GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Mr. Caporicci will utilize his expertise in providing advice and consultation during the implementation of the new GASB standards. As an assurance partner with over forty years of experience, Mr. Caporicci has performed financial, compliance audit, and consultation services to government clients, including cities, counties, transportation agencies, and school districts, as well as various not-for-profit entities. He is a Certified Public Accountant, a Certified Government Financial Manager, and Certified in Financial Forensics.

Mr. Caporicci will be responsible for providing advice and consultation for the implementation of new accounting standards.

Padre Dam Municipal Water District



Andrew Roth, CPA | Engagement Director

Andrew Roth is a Director within the Firm and will serve as the primary point of contact for your team. He holds an Advanced Certification in Single Audits through the AICPA. Andrew draws more than a decade of governmental and not-for-profit experience in the areas of financial audit and reporting under governmental and financial accounting standards, evaluation of internal controls under the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Integrated Framework, the performance of Single Audits under the Uniform Guidance, subrecipient monitoring of Federal Grants, corporate financial reporting, data analytics, and exempt taxation. He is a Certified Public Accountant.

Andrew will ensure the audit is conducted within the deadlines and will provide updates on our team's progress to the partners and to you.



Marco Torres | Audit Senior

Marco is a Senior Associate within the Firm. He will work with the engagement team, assign tasks, and supervise the personnel during the auditing process. Mr. Torres will secure the effective implementation of the services approach while assisting in the timely delivery of the requested services.

Staff Continuity

The Pun Group LLP is committed to maintaining staff continuity throughout audit engagements, and we can assure that the partners assigned to this audit will be involved throughout the entire contract term.

While we cannot guarantee that our staff level members will stay with the Firm, we encourage loyalty by paying competitive wages, offering opportunities for promotion, using state-of-the-art equipment, and providing excellent working conditions. Also, we offer benefits, including retirement plans, medical plans, profit-sharing programs, and continuing education. In addition, the Firm is an equal opportunity employer and complies with all federal and state hiring requirements. We're proud of supporting affirmative-action philosophies and work hard to provide opportunities for self-enhancement to members of disadvantaged groups.

Quality-Control System

Our Firm meticulously monitors the quality and contents of our reports. The Pun Group LLP is 100% committed to providing only the highest grade of work possible for our clients and for those who rely on our audits. The Firm strives to exceed professional industry standards because of the continuing respect for our clients and our emphasis on creating long-lasting relationships. The Pun Group LLP works exclusively with those who share the same moral integrity and values.

Our quality-control system has been crafted with excellence in mind. It not only meets AICPA standards but also matches our own elevated standards, which includes the following professional-development activities.

Padre Dam Municipal Water District

Continuing Education and Professional Development

Because of our commitment to provide the highest quality of services to the District, we provide our professionals with technical training to ensure our people stay current on topics within the industry sectors and better equipped themselves to serve our clients.

All professionals are required to obtain continuing education that exceeds the requirements of the American Institute of Certified Public Accountants (AICPA) and, where applicable, *Government Auditing Standards*. Our professionals participate in continuing education programs through the following means:

- Governmental Accounting and Auditing Conference sponsored by AICPA.
- Webinar sponsored by AICPA Government Audit Quality Center.
- Annual Conference sponsored by California Society Municipal Finance Officers.
- Governmental Accounting and Auditing Conference sponsored by CalCPA.
- The Pun Group in-house training on government-specific topics, including but not limited to GASB updates, 2019 Revision Government Auditing Standards, Fraud in State and Local Governments, COSO Internal Control-Integrated Framework, Audit of State and Local Governments, Single Audit, and Mindbridge AI Auditors™.



In 2020, our government professionals received an average of 52 hours of continuing professional education, compared with the 40 hours accounting industry requirement.

By expanding our knowledge through these seminars/conferences, we can provide the right solutions to our clients.

Engagement Team Resumes

The Padre Dam Municipal Water District deserves experienced professionals who work as a team. The Pun Group LLP will provide qualified professionals to perform the audit. No subcontractors will be utilized to perform the requested services. Resumes for key engagement team members follow:

Padre Dam Municipal Water District



Coley Delaney

CPA

**Engagement/
Lead Partner**



EMAIL

coley.delaney@pungroup.com



WEBSITE

www.pungroup.com

Expertise:



CITIES



COUNTIES



TRANSPORTATION
AGENCIES



SPECIAL
DISTRICTS



HIGHER
EDUCATION



NOT-FOR-PROFIT

Licensed to Practice in:
California

EXPERIENCE

Coley Delaney is a Partner within The Pun Group ^{LLP} Assurance division. In his fifteen (15) years of accounting and auditing experience, Coley has worked with governmental agencies, not-for-profit entities, and private for-profit entities. He specializes in conducting financial audits under GAO Yellow Book standards and compliance audits in accordance with Uniform Guidance (formerly known as OMB Circular A-133).

Mr. Delaney has performed audits and other attestation services for several governmental agencies throughout California, including cities, counties, redevelopment agencies, public financing authorities, housing authorities, transportation agencies, and special districts, and he has helped them publish their Comprehensive Annual Financial Reports in compliance with GASB Statement No. 34.

Mr. Delaney develops training materials and shares his expertise internally with other Firm professionals. Coley is a frequent speaker at in-house seminars on topics related to government auditing standards and Single Audits.

EDUCATION

University of California, Santa Barbara

B.A. Degree – Business Economics, Emphasis in Accounting

LEADERSHIP & AFFILIATIONS

- Member, American Institute of Certified Public Accountants (AICPA)
- Member, California Society of Certified Public Accountants (CalCPA)

RELEVANT EXPERIENCE

- Olivenhain Municipal Water District
- Encinitas Ranch Golf Authority
- San Diego Community College District
- San Elijo Joint Powers Authority
- Menlo Park Fire Protection District
- San Dieguito Water District
- Southwestern Community College District
- Marina Coast Water District
- Ventura County Transportation Commission
- North County Fire Protection District

CONTINUING PROFESSIONAL EDUCATION

Various courses offered by the Firm, online through Thompson Reuters, AICPA, CalCPA Education Foundation, including:

- Governmental and Nonprofit Annual Update
- Government Auditing Standards
- GASB Basic Financial Statements for State and Local Governments
- Single Audits: Uniform Guidance (formerly OMB Circular A-133)
- Financial Accounting Standards Board Annual Updates
- Statement on Standards for Accounting and Review Services Updates

Has met/exceeded the current CPE educational requirements to perform audits of governmental agencies.

Padre Dam Municipal Water District



Kenneth H. Pun

CPA, CGMA

Technical/
Concurring Partner



EMAIL

ken.pun@pungroup.com



WEBSITE

www.pungroup.com

Expertise:



CITIES



COUNTIES



TRANSPORTATION
AGENCIES



SPECIAL
DISTRICTS



HIGHER
EDUCATION



NOT-FOR-PROFIT

Licensed to Practice in:
California

EXPERIENCE

Kenneth H. Pun is the Managing Partner and an Assurance Partner at The Pun Group ^{LLP}, which he founded in 2012 after serving in senior-level positions for well-established national and regional firms. Under his leadership, The Pun Group has become one of the “*Top Accounting Firms*” in Orange County, according to the Orange County Business Journal. The Pun Group is also on the list of CalCPA Top 150 firms.

Prior to founding The Pun Group, Ken has served clients in a variety of industries, including small to very large state and local governmental agencies, insurance companies, not-for-profits, healthcare, technology, and manufacturing and distribution clients. His career in public accounting was spent primarily with the Regional firms and National firms.

Leveraging more than 21 years of public accounting experience, Ken has earned a reputation of being a trusted advisor to governmental and Healthcare organizations throughout California and neighboring states. Municipalities and public agencies engage him because of his premier level of client service, commitment, and innovative methods of increasing operational efficiencies and reducing costs.

Ken maintains his deep commitment to professional education through his work as an instructor for the California Education Foundation. He has authored training materials in governmental accounting and auditing, such as Financial Reporting for State and Local Governments, 2018 Government Auditing Standards, and Single Audit Fundamentals for California Education Foundation. He is also the technical reviewer of the CCH Knowledge-Based Audits™ of State and Local Governments with Single Audits. He advises clients on those topics at influential industry forums. Internally, Ken mentors audit teams by providing direction and technical guidance to ensure adherence to the firm’s quality controls.

EDUCATION

University of California, Riverside

B.S. Degree – Business Administration, Emphasis in Accounting

LEADERSHIP & AFFILIATIONS

- Member, American Institute of Certified Public Accountants (AICPA)
- Member, California Society of Certified Public Accountants (CalCPA)
- Past Chair, CalCPA Governmental Accounting and Auditing Committee
- Member, CalCPA California Committee on Municipal Accounting
- Member, CalCPA Governmental Accounting and Auditing Conference Planning Committee
- Member, Government Finance Officers Association (GFOA)
- Member, California Society of Municipal Finance Officers (CSMFO)
- Member, CSMFO Professional Standards Committee
- Speaker, CSMFO Conference (2014 and 2018)
- Instructor, CalCPA Education Foundation
- Technical Reviewer, CCH Knowledge-Based Audits™ of State and Local Governments with Single Audits
- Nominated, Innovative Practitioner of the Year 2020 Award (AICPA’s CPA.com)

RELEVANT EXPERIENCE

- Alameda County Water District
- El Toro Water District
- Marina Coast Water District
- Riverside County Flood Control and Water Conservation District
- Central Basin Municipal Water District
- Las Virgenes Municipal Water District
- Orange County Coastkeeper
- South Orange County Wastewater Authority
- Sativa Los Angeles County Water District

CONTINUING PROFESSIONAL EDUCATION

Various courses offered by the Firm, online through Thompson Reuters, AICPA, CalCPA Education Foundation, including:

- Governmental and Nonprofit Annual Update
- Government Auditing Standards
- GASB Basic Financial Statements for State and Local Governments
- Single Audits: Uniform Guidance (formerly OMB Circular A-133)
- Financial Accounting Standards Board Annual Updates
- Statement on Standards for Accounting and Review Services Updates

Has met/exceeded the current CPE educational requirements to perform audits of governmental agencies.

Padre Dam Municipal Water District



John F. Georger, Jr.

CPA, CIA, CGMA
Quality Control
Reviewer



EMAIL

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WEBSITE

www.pungroup.com

Expertise:



CITIES



COUNTIES



TRANSPORTATION
AGENCIES



ENTERPRISE
OPERATIONS



HIGHER
EDUCATION



NOT-FOR-PROFIT

Licensed to Practice in:
California
Arizona
Nevada

EXPERIENCE

Jack Georger is the Chief Quality Officer within The Pun Group LLP's Assurance division. By leveraging more than forty (40) years of public accounting and auditing experience in the government, agribusiness, financial services, manufacturing, and nonprofit sectors, Mr. Georger brings in-depth knowledge and practical expertise to each engagement.

Jack coordinates, plans, and manages financial audit activities, consulting activities, federal and state compliance audit activities, performance audits, and numerous quality control and internal control reviews for a broad mix of governmental agencies and programs throughout the United States.

Mr. Georger leads our Peer Review department providing peer review services to other firms under the practice monitoring program of the AICPA.

Mr. Georger is a continuing professional education course instructor for the AICPA. Annually, he instructs over 300 hours in accounting and auditing subjects. Jack has authored training material in governmental accounting and auditing for the AICPA. He is the technical reviewer of the CCH Knowledge-Based Audits™ of State and Local Governments with Single Audits, GAAP Guide (FASB), and Governmental GAAP Guide (GASB).

Mr. Georger is licensed to practice as a certified public accountant in the states of California, New York, Virginia, Maryland, District of Columbia, Missouri (inactive), Connecticut (inactive), and Wyoming (inactive). He is a Certified Internal Auditor (CIA).

EDUCATION

George Mason University Fairfax, Virginia

B.S. Degree – Accounting

LEADERSHIP & AFFILIATIONS

- Member and Instructor, American Institute of Certified Public Accountants (AICPA)
- Member, Institute of Internal Auditors
- Member, California Society of Certified Public Accountants (CalCPA)
- Member, New York Society of Certified Public Accountants (NYSSCPA)
- Chairman, NYSSCPA Government Accounting and Auditing Committee
- Member, NYSSCPA Auditing Standards Committee
- Member, NYSSCPA Sustainability Committee
- Member, NYSSCPA Not-for-Profit Committee
- Nevada Society of Certified Public Accountants (NSCPA)
- Member, Government Finance Officers Association (GFOA) – CAFR Reviewer
- Member, Institute of Internal Auditors

CONTINUING PROFESSIONAL EDUCATION

He has instructed over 300 hours of municipal accounting courses offered by the AICPA.

Has met/exceeded the current CPE educational requirements to perform audits of governmental agencies.

Padre Dam Municipal Water District



Gary M. Caporicci
CPA, CGFM, CFF
GASB
Implementation
Specialist



EMAIL

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WEBSITE

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Expertise:



CITIES



COUNTIES



TRANSPORTATION
AGENCIES



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OPERATIONS



HIGHER
EDUCATION



NOT-FOR-PROFIT

Licensed to Practice in:
California

EXPERIENCE

Gary M. Caporicci has more than forty years of diversified business experience, including a specialization in audit and management consulting for government organizations. Gary's clients include public and private universities and colleges, city and county governments, state agencies, joint power authorities, healthcare agencies, transportation agencies, and special districts. Known for his expertise in the areas of construction and government, Gary wrote the AICPA audit guides on these topics, and he has authored many audit and accounting courses for professional groups, as well as academic institutions. He frequently speaks and lectures at many professional organizations, governmental seminars, and conferences held by industry associations, other accounting firms, and universities. Also, he authors white papers for the California Committee on Municipal Accounting.

Before working with the Firm, Gary founded his accounting practice. He also spent eleven years with a "Big Eight" professional services firm, where he was an Audit Manager and gained broad experience in a wide range of industries such as government, construction, manufacturing, mutual funds, and insurance. Gary has held a consultant position with a "Big Four" practice and was Vice President of a national insurance and financial services company.

In 2015 Gary Caporicci was appointed to the State Retirement Advisory Committee by the State Controller.

EDUCATION

Armstrong University

B.S. Degree – Accounting and Finance

LEADERSHIP & AFFILIATIONS

- Member and Instructor, American Institute of Certified Public Accountants (AICPA)
- Member, Author, and Instructor, California Society of Certified Public Accountants (CalCPA)
- Past Chair, CalCPA Governmental Accounting and Auditing Committee
- Chair and Speaker, CalCPA Governmental Accounting and Auditing State Conferences
- Member, CalCPA Council
- Chair, California Committee on Municipal Accounting (CCMA)
- Member, Government Finance Officers Association (GFOA)
- Member, California Society of Municipal Finance Officers (CSMFO)
- Member, Governmental Accounting Standards Board (GASB)
- Member, Deposit and Investment Risks Disclosure Task Force (GASB No. 40)
- National Reviewer and Speaker, Government Finance Officers Association
- Adjunct Professor, National University
- Past Member, Texas Governmental Accounting and Auditing Committee
- GFOA Certificate for Excellence in Financial Reporting – Reviewer

CONTINUING PROFESSIONAL EDUCATION

Author and instructor of various municipal accounting courses offered by the AICPA, CalCPA Education Foundation, and local universities, including:

- Governmental and Non-profit Annual Update
- Government Auditing Standards
- GASB Basic Financial Statements for State and Local Governments
- Single Audits: Uniform Guidance (formerly OMB Circular A-133)
- Financial Accounting Standards Board Annual Updates
- Statement on Standards for Accounting and Review Services Updates

Has met/exceeded the current CPE educational requirements to perform audits of governmental agencies.

Padre Dam Municipal Water District



Andrew Roth
CPA
Engagement
Director



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WEBSITE

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Expertise:



CITIES



COUNTIES



TRANSPORTATION
AGENCIES



ENTERPRISE
OPERATIONS



HIGHER
EDUCATION



NOT-FOR-PROFIT

Licensed to Practice in:
California
Arizona

EXPERIENCE

Andrew Roth is a Director within The Pun Group LLP. He has more than twelve (12) years of governmental and not-for-profit experience in the areas of financial audit and reporting under governmental and financial accounting standards, evaluation of internal controls under the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Integrated Framework, the performance of Single Audits under the Uniform Guidance, subrecipient monitoring of Federal Grants, corporate financial reporting, data analytics, and exempt taxation. His client portfolio consists of moderate to large municipalities (cities and counties), municipal transportation districts, water districts, municipal electric utilities, and non-profit organizations whose missions involve building communities. His governmental agency clients have federal grant expenditures that range from \$100 million to \$750 million annually.

In various engagements, Andrew has been responsible for leading the service delivery where he has actively contributed and managed the planning process, implementation of the audit work plan, supervision of multiple audit teams, provided yearly team updates on the changes in compliance testing requirements for the Single Audits, and preparation of all deliverables including the Comprehensive Annual Financial Reports, the Single Audit, Compliance Reports, Data Collection Forms, and City Council/Board presentations. He has also been a guest speaker on topics involving Federal grants such as Update to Yellow Book Standards, Compliance Auditing, and Updates to the Uniform Guidance Procurement Requirements.

EDUCATION

San Diego State University
B.A. Degree – Accounting



LEADERSHIP & AFFILIATIONS

- Member, American Institute of Certified Public Accountants (AICPA)
- Member, California Society of Certified Public Accountants (CalCPA)

RELEVANT EXPERIENCE

- Las Virgenes Municipal Water District
- Olivenhain Municipal Water District
- City of Placerville
- City of Stockton
- County of Madera
- Marina Coast Water District
- City of Stockton
- City of Shafter
- County of San Diego
- County of Imperial

CONTINUING PROFESSIONAL EDUCATION

Various courses offered by the Firm, online through Thompson Reuters, AICPA, CalCPA Education Foundation, including:

- Governmental and Non-profit Annual Update
- Government Auditing Standards
- GASB Basic Financial Statements for State and Local Governments
- Single Audits: Uniform Guidance (formerly OMB Circular A-133)
- Financial Accounting Standards Board Annual Updates
- Statement on Standards for Accounting and Review Services Updates

Has met/exceeded the current CPE educational requirements to perform audits of governmental agencies.

Padre Dam Municipal Water District



Marco Torres

Audit Senior



EMAIL

marco.torres@pungroup.com



WEBSITE

www.pungroup.com

Expertise:



CITIES



TRANSPORTATION
AGENCIES



ENTERPRISE
OPERATIONS



NOT-FOR-PROFIT

EXPERIENCE

Marco Torres is a Senior Associate within The Pun Group ^{LLP}'s Assurance division. In his two years of accounting and auditing experience, Marco has worked with governmental agencies and not-for-profit entities.

Mr. Torres has performed audits and other attestation services for several governmental agencies throughout California and Arizona, including cities, redevelopment agencies, transportation agencies, and special districts, and he has helped them publish their Comprehensive Annual Financial Reports in compliance with GASB Statement No. 34.

EDUCATION

San Diego State University, CA

B.A. Degree – Business Administrations, Emphasis in Accounting and minor in Finance

RELEVANT EXPERIENCE

- San Diego Metropolitan Transit System
- San Elijo JPA
- Family Health Centers of San Diego
- Santa Fe Irrigation District
- City of National City
- Ventura County Transportation Commission
- Southwestern Community College District
- Rancho Santa Fe Fire District
- City of Shafter
- City of Beaumont

CONTINUING PROFESSIONAL EDUCATION

Various courses offered by the Firm, online through Thompson Reuters, AICPA, CalCPA Education Foundation, including:

- Governmental and Nonprofit Annual Update
- Government Auditing Standards
- GASB Basic Financial Statements for State and Local Governments
- Single Audits: Uniform Guidance (formerly OMB Circular A-133)
- Financial Accounting Standards Board Annual Updates
- Statement on Standards for Accounting and Review Services Updates

Has met/exceeded the current CPE educational requirements to perform audits of governmental agencies.

Similar Engagements with Other Government Entities

References

The following are examples of some of the engagements performed in the last five years, with similar requirements as the Padre Dam Municipal Water District's proposal. These clients can be used as references as well. Please feel free to contact these agencies to learn more about their experiences working with us.

Name of Public Agency	Alameda County Water District
Contact Info	Ms. Mariana Grajeda, CPA (510) 668-4258 mariana.grajeda@acwd.com
Total Hours:	Approximately 550 hours
Contract Price:	\$60,000
Scope of Work/Reports Prepared	Financial Audit and Compliance Services: CAFR Audit, GFOA Award, Debt Issues/Bond Covenants, SCO Report.

Name of Public Agency	Las Virgenes Municipal Water District
Contact Info	Mr. Donald Patterson, Director (818) 251-2133 dpatterson@lvmwd.com
Total Hours:	Approximately 370 hours
Contract Price:	\$42,000/year
Scope of Work/Reports Prepared	Financial Audit and Compliance Services: CAFR Audit, GFOA Award, Single Audit, Las Virgenes-Triunfo Joint Powers Authority

Name of Public Agency	Marina Coast Water District
Contact Info	Ms. Kelly Cadiente, Director of Administrative Services (831) 384-6131 kcadiente@mcwd.org
Total Hours:	Approximately 300 hours
Contract Price:	\$30,000/year
Scope of Work/Reports Prepared	Financial Audit and Compliance Services: CAFR Audit, GFOA Award, Single Audit

Padre Dam Municipal Water District

Firm's Governmental Clients

The Pun Group ^{LLP} has performed numerous audits of organizations subject to financial and compliance audits. These audits were performed under auditing standards generally accepted in the United States (GAAS), Government Auditing Standards (GAGAS), Uniform Guidance, and its Compliance Supplement (when applicable), Office of the State Controller's Minimum Audit Requirements and Reporting Guidelines. A representative list of current government audit clients follows:

Municipalities	Dates	Financial Audit	Single Audit	GFOA Certificate	Total Hours
City of Alameda	2019 – Present	Accounting and Consulting Services			150
City of Arvin	2013 – Present	Yes	Yes	N/A	400
City of Bell	2018 – Present	Yes	Yes	Yes	520
City of Bradbury	2012 – Present	Yes	N/A	N/A	150
City of Calexico	2007 – Present	Yes	Yes	N/A	750
City of Cerritos	2020 – Present	Accounting and Consulting Services			300
City of Cerritos	2012 – 2019	Yes	Yes	Yes	400
City of Clovis	2006 – Present	Yes	Yes	Yes	500
City of Coachella	2017 – Present	Yes	Yes	Yes	410
City of Cottonwood, AZ	2007 – Present	Yes	Yes	Yes	400
City of Culver City	2016 – Present	Yes	Yes	Yes	535
Town of Danville	1999 – Present	Yes	Yes	Yes	400
City of Douglas, AZ	2020 – Present	Yes	Yes	Yes	300
City of Desert Hot Springs	2013 – Present	Yes	N/A	N/A	400
City of Gardena	2007 – Present	Yes	Yes	Yes	700
City of Gilroy	2020 – Present	Yes	Yes	Yes	640
City of Glendora	2017 – Present	Yes	Yes	Yes	430
City of Gustine	2017 – Present	Yes	N/A	N/A	400
City of Hemet	2015 – Present	Yes	Yes	N/A	380
City of Hercules	2020 – Present	Yes	Yes	Yes	450
City of Lakewood	2013 – Present	Yes	Yes	Yes	380
City of Lomita	2020 – Present	Accounting and Consulting Services			150
City of Lodi	2018 – Present	Yes	Yes	Yes	760
City of Lynwood	2016 – Present	Yes	Yes	Yes	585
City of Madera	2019 – Present	Yes	Yes	Yes	470

Padre Dam Municipal Water District

Municipalities	Dates	Financial Audit	Single Audit	GFOA Certificate	Total Hours
City of Monterey	2016 – Present	Yes	Yes	Yes	620
City of Morro Bay	2015 – Present	Yes	Yes	N/A	400
City of Napa	2019 – Present	Yes	Yes	Yes	900
City of National City	2013 – Present	Yes	Yes	Yes	600
City of Palm Springs	2020 – Present	Yes	Yes	Yes	1,000
City of Patterson	2017 – Present	Yes	Yes	Yes	450
City of Perris	2019 – Present	Yes	Yes	Yes	840
City of Placentia	2016 – Present	Yes	Yes	Yes	620
City of Placerville	2008 – Present	Yes	Yes	N/A	400
City of Redding	2016 – Present	Yes	Yes	Yes	600
City of Ridgecrest	2009 – Present	Yes	Yes	Yes	300
City of Rohnert Park	2020 – Present	Yes	Yes	Yes	700
City of San Mateo	2021 – Present	Yes	Yes	Yes	900
City of Seal Beach	2017 – Present	Yes	Yes	Yes	410
City of Shafter	2017 – Present	Yes	Yes	Yes	400
City of South Gate	2016 – Present	Yes	Yes	Yes	480
City of Stockton	2012 – Present	Yes	Yes	N/A	3,000
City of Tracy	2021 – Present	Yes	Yes	Yes	960
City of Visalia	2021 – Present	Yes	Yes	Yes	700
Imperial County Transportation Authority	2018 – Present	Yes	Yes	N/A	750
San Diego Metropolitan Transit System	2005 – Present	Yes	Yes	Yes	1,850
Shasta Regional Transportation Agency	2015 – Present	Yes	N/A	N/A	200
Alameda County Water District	2018 – Present	Yes	Yes	N/A	585
Central Basin Water District	2018 – Present	Yes	Yes	N/A	400
Gold Coast Transit District	2020 – Present	Accounting and Consulting Services			Hourly
Las Virgenes Municipal Water District	2014 – Present	Yes	N/A	N/A	300
Los Angeles County Law Library	2020 – Present	Yes	N/A	N/A	180
Marina Coast Water District	2012 – Present	Yes	N/A	Yes	240
Menlo Park Fire Protection District	2015 – Present	Yes	Yes	Yes	240
NALEO Educational Fund and NALEO	2020 – Present	Yes	N/A	N/A	300

Padre Dam Municipal Water District

Municipalities	Dates	Financial Audit	Single Audit	GFOA Certificate	Total Hours
Olivenhain Municipal Water District	2019 – Present	Yes	Yes	Yes	200
Rancho Murieta Community Services District	2019 – Present	Accounting and Consulting Services			800
Rancho Santa Fe Fire Protection District	2015 – Present	Yes	N/A	N/A	120
San Bernardino County Emergency Training Center	2020 – Present	Yes	N/A	N/A	50
San Bernardino County Preschool Services Department	2020 – Present	Yes	Yes	N/A	150
San Bernardino County Fire Protection District	2016 – Present	Yes	N/A	N/A	200
San Elijo Joint Powers Authority	2016 – Present	Yes	N/A	N/A	146
Santa Clara Stadium Authority	2020 – Present	Yes	N/A	N/A	230
Santa Fe Irrigation District	2019 – Present	Yes	N/A	N/A	250
South Bay Cities Council of Governments	2020 – Present	Yes	N/A	N/A	100
South Orange County Water Authority	2017 – Present	Yes	Yes	Yes	240
South Bay Cities Council of Governments	2020 – Present	Yes	N/A	N/A	60
South Bay Regional Public Communications Authority	2015 – Present	Yes	N/A	N/A	100
Southwestern Community College District	2009 – Present	Yes	Yes	N/A	720
Valley Sanitary District	2015 – Present	Yes	N/A	Yes	140
West Valley Mosquito and Vector Control District	2016 – Present	Yes	N/A	N/A	100
Yuma Metropolitan Planning Organization, AZ	2015 – Present	Accounting and Consulting Services			
Zone 7 Water Agency	2020 – Present	Yes	Yes	Yes	270

GFOA Award Program

The Pun Group ^{LLP} realizes the importance of maintaining the Certificate for Excellence in Financial Reporting from the GFOA. Our professionals are exceptionally well qualified in assisting governments in obtaining and maintaining their certificates.

The Firm's commitment and involvement in the development of auditing and accounting standards can be shown in our active participation in the GFOA's financial statements certificate programs. 100% of our current clients who submitted their Comprehensive Annual Financial Report (CAFR) to the GFOA received these awards.

Also, two of our senior partners, Mr. Gary Caporicci and Mr. John F. Georger, are members of the Government Finance Officers Association and participate on the GFOA Special Review Committee.

Padre Dam Municipal Water District

Firm's Current and Past Experience with Special Districts and Authorities

Our Firm has provided professional services to several Districts and Authorities. Below is a representative listing of such engagements:

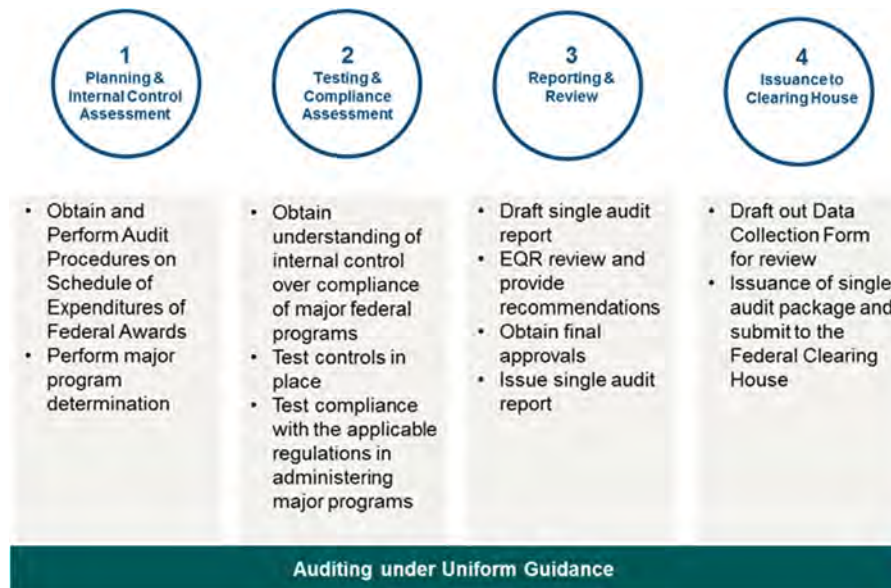
- Adelanto Public Utility Authority
- Alameda County Water District
- Arbuckle Public Utility District
- Bodega Bay Fire Protection District
- Casitas Municipal Water District
- Central Basin Municipal Water District
- Civic – Recreational – Industrial Authority
- City of Monterey Joint Powers Financing Authority
- Coachella Valley Resource Conservation District
- Coachella Fire Protection District
- Diablo Water District
- East Orange County Water District
- El Toro Water District
- Farm Mutual Water Company
- Las Virgenes Municipal Water District
- Las Virgenes – Triunfo Joint Powers Authority
- Los Angeles Waterkeeper
- Marina Coast Water District
- Menlo Park Fire Protection District
- Mountain Recreation Conservation Authority
- North County Dispatch Joint Powers Authority
- North County Fire Protection District
- Olivenhain Municipal Water District
- Orange County – City Hazardous Materials Emergency Response Authority
- Orange County Coastkeeper
- Palmdale Water District
- Perris Joint Powers Authority
- Presidio Municipal Services Agency
- Rancho Santa Fe Fire Protection District
- Riverside County Flood Control and Water Conservation District
- San Diego Coastkeeper
- San Bernardino County Fire District
- San Elijo Joint Powers Authority
- San Joaquin County Regional Fire Dispatch Authority
- South Bay Regional Public Communications Authority
- Santa Fe Irrigation District
- Sativa Los Angeles County Water District
- South Orange County Wastewater Authority
- Sweetwater Springs Water District
- Trabuco Canyon Water District
- Twentynine Palms Water District
- Valley Sanitary District
- Water Replenishment District of Southern California
- West County Wastewater District

Firm's Experience with Single Audit and Grants

The Pun Group ^{LLP} works with numerous organizations that receive extensive governmental funding and are subject to auditing under Uniform Grant Guidance. This Firm's specialization helps our audit team understand the procedures' nuances and execute the engagement accordingly. We also assist in preparing the data collection form and preparing the reporting package for submission to the federal audit clearinghouse.

The Firm is a member of the AICPA Governmental Audit Quality Center and has demonstrated our commitment to audit quality, including those performed under Government Auditing Standards and Uniform Guidance. Also, we are a recipient of the *Single Audit Resource Center's Award for Excellence*. This award bases on the positive feedback result from our clients in an independent survey, demonstrating our Firm's highest commitment to quality and client satisfaction.

We utilize standardized audit programs from the federal government's Compliance Supplement to ensure that our procedures meet the federal standards. Our audit programs are continually updated to reflect the revisions of OMB. Our Uniform Guidance risk-based approach focuses on areas of higher risk of noncompliance. Such an approach truly reflects the federal government intent by concentrating on the following four steps:



- 1. Planning & Internal control assessment:** The engagement team will obtain an understanding of the District and its operating environment and its internal control over the Schedule of Expenditures of Federal Awards. The engagement team will perform the major program determination and communicate with the District's management before conducting major program testing.
- 2. Testing & compliance assessment:** The engagement team will obtain an understanding of internal control over compliance on the direct and material compliance requirements for each major program. The engagement will perform testing on internal controls over compliance to ensure the controls are in place working effectively and properly and that the District is in compliance with the applicable regulations in administering major programs.
- 3. Reporting & Review:** The engagement team will review and prepare the single audit reports and perform quality control procedures following the Quality Control Standards issued by the AICPA. Any comments will be issued to the management or the Charge with Governance depending on the magnitude of the issues. Upon obtaining the final approvals from management, the Single Audit report will be issued.
- 4. Issuance to Clearing House:** The engagement team will assist the District in drafting out the data collection form and complete the final submission, including uploading the audit package to the Federal Clearing House.

Padre Dam Municipal Water District

Our Firm has audited hundreds of millions of dollars in federal expenditures, making our engagement team uniquely experienced in single audits. We are familiar with *grantors*, such as:



- Corporation for National and Community Services
- Department of Agriculture
- Department of Education
- Department of Health and Human Services
- Department of Housing and Urban Development
- Department of Transportation
- Environmental Protection Agency
- Department of Commerce
- Department of Labor
- Department of Homeland Security
- Department of Justice
- Department of Treasury
- Executive Office of the President

Following are a few examples of the types of federal programs our engagement team has experience auditing:

	CFDA
Child and Adult Care Food Program	10.558
Community Development Block Grants/Entitlement Grants	14.218
Home Investment Partnership	14.239
Housing Vouchers Cluster	14.871
Title XVI Water Reclamation and Reuse Program	15.504
Equitable Sharing Program	16.922
WIAWIOA Adult Program	17.258
WIAWIOA Youth Activities	17.259
WIAWIOA Dislocated Worker Formula Grants	17.278
Airport Improvement Program	20.106
Highway Planning and Construction	20.205
Federal Transit - Capital Investments Grants	20.500
Federal Transit - Formula Grants	20.507
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608
Capitalization Grants for Clean Water State Revolving Funds Cluster	66.458
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045
Nutrition Services Incentive Program	93.053
Temporary Assistance for Needy Families (TANF) State Programs	93.558
Community Service Block Grant	93.569
Child Care and Development Block Grant	93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs	93.714
National Urban Search and Rescue (US&R) Response System	97.025
Homeland Security Grant Program	97.067

CARES Act

The \$2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act allocated hundreds of billions of dollars of new aid to non-federal entities, including state and local governments, universities, health care providers, not-for-profit organizations, and Native American tribes, will be part of Single Audit procedures.

On December 22, 2020, the Office of Management and Budget (OMB) released the Addendum to the 2020 Office of Management and Budget (OMB) Compliance Supplement. A new reporting requirement has been added relating to Federal Funding Accountability and Transparency Act reporting (FFATA) by direct recipients who make first-tier subawards of \$25,000 or more. Auditors must test FFATA reporting for all the COVID-19 programs included in the Supplement addendum (except for the Coronavirus Relief Fund program), and the audit requirement is extended to all selected major programs meeting (meeting the above-described criteria) for audits of fiscal years after September 30, 2020, regardless of whether COVID-19 funding is involved.

As further OMB updates are released, our team continues to monitor any changes and will keep you informed and up-to-date with constant communication.

Padre Dam Municipal Water District

Firm's Experience with Tyler Technologies and Their Solutions

Several of our clients currently utilize Tyler Technologies' software, such as MUNIS and Eden, as their financial software. Our team will employ their experience with other engagements and hit the ground running, with no downtime, to get themselves familiarized. Some examples of our clients which utilize Tyler Technologies are:



Client Name	Office	Industry	Financial Management System and Version
Madera, City of	Santa Ana	Local Government	Tyler - Munis 9.4
Encinitas, City of	San Diego	Local Government	Tyler - Munis 9.4
Rohnert Park, City of	Walnut Creek	Local Government	Tyler - Munis 9.4
San Elijo JPA	San Diego	Special District	Tyler - Munis 9.4
Shafter, City of	Santa Ana	Local Government	Tyler - Munis
Lodi, City of	Walnut Creek	Local Government	Tyler - Munis 9.4
Lakewood, City of	Orange County	Local Government	Tyler - Munis 10.5
National City, City of	San Diego	Local Government	Tyler - Munis
Culver City, City of	Orange County	Local Government	Tyler - Munis
Perris, City of	Orange County	Local Government	Tyler - Munis
Lynwood, City of	Orange County	Local Government	Tyler - Eden
Gardena, City of	Orange County	Local Government	Tyler - Eden
Monterey, City of	Orange County	Local Government	Tyler - Eden
South Gate, City of	Orange County	Local Government	Tyler - Eden
Shafter, City of	Walnut Creek	Local Government	Tyler - Munis
South Bay Regional Communications	Orange County	Local Government	Tyler - Eden

Padre Dam Municipal Water District

Firm's Expertise and Experience in Governmental Accounting Rules and Regulations Including Implementation of new GASB Pronouncements

Changing federal laws, statutes, ordinances, and compliance provisions have created unprecedented complexity in public accounting today. Our GASB Implementation Specialist, Mr. Gary Caporicci, has helped our clients implement new standards while adapting to changes within the existing standards. Our partners serve on committees that have input into how new standards are written. They actively participate in industry associations focused on state and local governments. By participating in industry associations and activities, we are always up to date on the latest industry changes and their impact on your operations. We will keep you and our colleagues in the Firm fully informed of these developments.

Also, our professionals are familiar with the complexities of governmental accounting, auditing, and financial reporting, including but not limited to all GASB pronouncements, the Single Audit Act, Uniform Guidance (formerly known as OMB Circular A-133), and fund operations. They have held positions as professional certified public accountants and taken on significant roles within and outside government agencies. Such experience brings to our clients the thought leadership, quality, and level of expertise they require.

The Firm is well versed and experienced in assisting our clients with the implementation of the applicable GASB pronouncements every year, such as GASB 34, GASB 54, GASB 65, GASB 68, GASB 75, and GASB 84. Mr. Gary Caporicci, as a chair of the California Committee on Municipal Accounting "CCMA," wrote "white-papers" on each of these pronouncements.

Throughout the engagement, several new GASB pronouncements will become effective. The Engagement Team will pay specific attention to upcoming statements that will become effective and work with the District to create a plan to address new standards before the implementation period. This step will allow the finance department staff the needed time to be prepared.

Postponed Upcoming Pronouncements

On May 8, 2020, the Governmental Accounting Standards Board (GASB) issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The Statement intends to provide relief to governments and other stakeholders in light of the COVID-19 pandemic. The guidance postpones by one year the effective dates of certain provisions in the following pronouncements:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Statement No. 96, *Subscription-Based Information Technology Arrangements*
- Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*

Also, the effective dates of the following pronouncements have been postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*

The provisions of Statement 95 are effective immediately. Statement 95 does not postpone the effective date of Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, because the pandemic was factored into Statement 94's effective date.

Our engagement team will keep you updated on any changes in the implementation schedule and stand ready to perform the procedures, minimizing any possible setbacks.

Specific Audit Approach

Scope of Work and Methodology

The Padre Dam Municipal Water District is requesting the Firm to perform Professional Auditing Services and issue opinions on the District's financial statements. The audits are to be completed in accordance with all applicable and generally accepted auditing standards, including, but not limited to, the following:

- Generally accepted auditing standards as set forth by the American Institute of Certified Public Accountants (AICPA).
- US General Accounting Office's (GAO) Standard for Audit of Governmental Organizations, Programs, Activities, and Functions.
- Local Governments and Governmental Accounting Standards Board (GASB) Pronouncements.
- The standards applicable to financial audits contained in the most current version of the *Generally Accepted Government Auditing Standards* (Yellow Book), issued by the Comptroller General of the United States.
- The provisions of the Single Audit Act as amended in 1996.
- The provisions of the US Office of Management and Budget (OMB) Uniform Guidance (formerly known as Circular A-133), Audits of State and Local Governments and Non-profit Organizations, and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

The Firm will perform the following services:

- ✓ Financial Statement Audits and issuance of an opinion statement on the **Comprehensive Annual Financial Report ("CAFR")**. The audit will be conducted in accordance with *Generally Accepted Government Auditing Standards*. The CAFR will be in full compliance with all current GASB pronouncements.

The Firm will assist in meeting the requirements for the Government Finance Officers Association (GFOA) "**Certificate of Achievement for Excellence in Financial Reporting.**"

- ✓ Issue a separate "**Management Letter**" that includes recommendations for improvements on internal control, accounting procedures, and other significant observations considered to be non-reportable conditions.
- ✓ Prepare a **Single Audit Report** which will include the following:
 - Report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
 - Report on compliance with requirements applicable to each major program, internal control over compliance, and on the schedule of expenditures of federal awards in accordance with Uniform Guidance, "Audits of State and Local Governments," and the Single Audit Act of 1984 (Public Law 98-502).
 - Schedule of Expenditures of Federal Awards.
 - Notes to Schedule of Expenditures of Federal Awards.
 - Schedule of Findings and Questioned Costs.
 - Any other required schedules or reports.
 - Prepare the Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations.

Attendance at Meetings and Hearings: The engagement team will participate in as many meetings with staff as needed to perform the work scope tasks, present the audit plan prior to beginning fieldwork, and discuss the draft audit reports. The team will attend public meetings to present and discuss its findings and recommendations. Once all issues of discussion are resolved, the completed CAFR, Single Audit report (if applicable), and other reports will be delivered to the District, according to the agreed-upon schedule.

Proposed Audit Adjustments: All proposed adjusting journal entries by the Firm will be discussed and explained in a timely manner with the designated Finance Department personnel. Such proposed adjustments will be in a format that shows the lowest level of posting detail needed for data entry in the general ledger systems.

Padre Dam Municipal Water District

Supplemental Reports, Audits, or Agreed-Upon Procedures: Other services, such as agreed-upon procedures, may be deemed necessary. These services will be performed at agreed-upon rates and will be added in a written agreement before commencing audit work. The Firm and the Padre Dam Municipal Water District will discuss and approve the scope and associated costs of these tasks.

Advice and Consultation: Will be provided throughout the year on matters relating to accounting and financial reporting. Such services do not include any task that entails significant research or a formal report.

GASB Implementation: The Firm will provide technical assistance and training in the implementation of applicable GASB pronouncements not yet in effect. We have a dedicated partner, Mr. Gary Caporicci, who will be responsible for providing advice and consultation for the implementation of these new standards. The Firm will advise the District on the applicability of accounting and reporting standards and other accounting issues and provide guidance on new note disclosures, GASB implementations, and other reporting requirements. We will also provide training, resources, and information on topics relevant to the District's financial reporting and operations. *(Based on the scope, additional charges may apply.)*

Report of all Irregularities and Illegal Acts: The Firm will make an immediate written report of all irregularities and illegal acts or indications of illegal actions of which we may become aware and address it to the appropriate level in the organization.

The engagement team will also make all communications to the District required by the audit standards under which the engagement is performed. Those communications include, but are not limited to:

- a) The auditor's responsibility under generally accepted auditing standards.
- b) Significant accounting policies.
- c) Management judgment and accounting estimates.
- d) Significant audit adjustments.
- e) Other information in documents containing audited financial statements.
- f) Disagreements with management.
- g) Management consultation with other accountants.
- h) Major issues discussed with management prior to retention.
- i) Difficulties encountered in performing the audit.

Working Paper Retention and Access to Working Papers: The Firm will retain, at its own expense, all working papers and reports for a minimum of (7) seven years, unless the Padre Dam Municipal Water District notifies the Firm in writing of the need to extend the retention period. The Firm will make working papers available to the District and/or its designees.

Also, we will comply with reasonable requests from successor auditors and allow them to review working papers that relate to matters of continuing accounting significance.

Methodology and Segmentation of Engagement

The Firm's audit approach consists of six phases: Engagement Acceptance and General Planning, Planning and Internal Control Evaluation, Fieldwork, Post Fieldwork, Report Preparation and Review, and Final Production.



Benefits

- Client tailored approach emphasizing careful planning, open communication, proper assignment of responsibilities
- An efficient and effective audit, so disruption to office operations is kept to a minimum
- Offer beneficial observations and recommendation about policies and procedures for accounting and operating controls
- Opportunities to make operations more efficient and reduce costs
- Provide advisory services so recommendations can be implemented
- Meet objectives at no additional cost

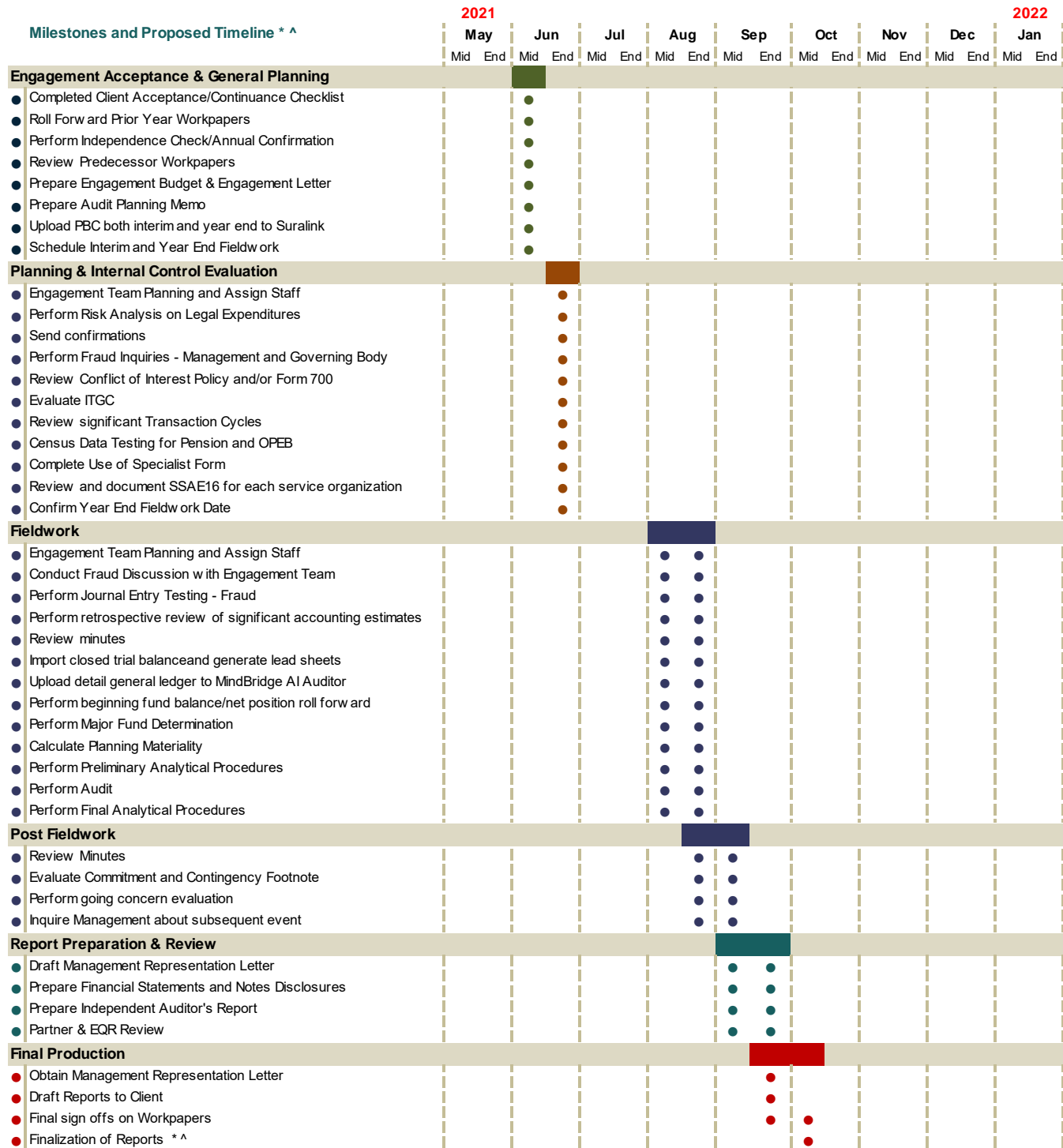
- 1. Engagement Acceptance and General Planning:** The engagement partner and manager will meet with District's management to obtain an update on current District policies and procedures, help identify risk areas and new operations, and establish any specific requirements they may have. Our team will work on the identification of unique transactions, implementation of new GASB pronouncements, and develop the audit work plan for the engagement.
- 2. Planning and Internal Control Evaluation:** The engagement team, including the engagement partner, will assess accounting policies adopted by the District in order to obtain an understanding of its structure and its operating environment. Also, our team will review internal controls on all significant transaction classes, perform walkthroughs and/or tests of internal controls, perform preliminary analytical procedures, develop initial risk assessment, evaluate Single Audit compliance, identify any audit issues, and prepare confirmation correspondence. The engagement team and District's Management will establish expectations, including responsibilities and assignments for the year-end fieldwork, and will hold a progress status meeting at the end of the interim phase.
- 3. Fieldwork:** The engagement team, including the engagement partner, will conduct audit procedures on account balances in the general ledger, finish confirmation procedures, perform data analysis using our AI tools, search for unrecorded liabilities, perform substantial analytical review procedures, complete work on compliance with Federal Assistance, and conclude fieldwork. The engagement team and District's Management will hold an exit conference at year-end. Periodic update meetings will be held to communicate audit progress to management.
- 4. Post Fieldwork:** During the phase, the engagement team, including the engagement partner, will review all documents and evaluate commitments and contingencies. The team will perform an assessment of the going concern and jointly plan for the next steps.
- 5. Report Preparation and Review:** The Firm will review and prepare audit reports and perform quality control procedures following the Quality Control Standards issued by the AICPA. We will also examine reports for compliance with GFOA reporting guidelines at no additional cost. Any comments will be recorded in a letter to management. At the District's request, the engagement partner and manager will present the audit to District's Management and other governing bodies.
- 6. Final Production:** The final phase of our approach entails obtaining the management representation letter and final financial statement report, which may include a final presentation to the District's Management and other governing bodies (if applicable).

The Firm will complete the audit fieldwork and issue all reports within the established timeframe, assuming no internal circumstances within the District causes delays in the audit.

Padre Dam Municipal Water District

Milestones and Proposed Timeline

The Pun Group LLP has planned and would like to propose the following timeline to meet the District's audit needs:



Above proposed timeline is subject to review and approval, and it can be modified as needed to meet client's needs.

*Based on Financial Statement/CAFR audit timing.

^ Single Audit timing to be determined by mutual consent

Notes:

A draft report will be provided to the District by September 24th.

The final report will be provided to the District by October 12th.

The team will be available to present to the Board on October 21st.

Padre Dam Municipal Water District

Level of Staff and Number of Hours to be Assigned to Each Segment of the Engagement

The Pun Group ^{LLP} understands that the District is not only looking to employ our auditing services but is also seeking to receive value within that professional relationship. We believe that our value derives from our in-depth knowledge, experience, and commitment that our auditing firm employs. We stress and emphasize “employ” because all of the knowledge and expertise listed on paper will not benefit you unless it is applied. That is why we have developed a plan that we feel will accomplish the objectives of the District and your particular needs. Our Firm will utilize the information that you have shared with us and our experience from our previous audits of this nature from various government entities and cities to develop a practical plan for all major areas.

Estimated Total Hours*:

	Partner(s)	Manager(s)	Senior(s)	Staff	Clerical	Total
Engagement Acceptance & General Planning	1	2	3	6	0	12
Planning & Internal Control Evaluation	1	2	5	9	0	18
Fieldwork	6	12	24	45	1	88
Post Fieldwork	4	8	16	30	1	59
Report Preparation & Review	6	12	24	45	1	88
Final Production	2	4	8	15	0	29
Total*	20	40	80	150	4	294

*Does not include CPE hours related to Governmental Webinars and/or optional services.

Sample Size and the Extent to Which Statistical Sampling is to be Used in this Engagement

In our audit approach, random and statistical sampling is used in conjunction with our skilled judgment and knowledge of each situation. When designing an audit sample, our auditors consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn. We determine a sample size sufficient to reduce sampling risk to an acceptably low level and select items for such a task in a way that we can reasonably expect it to be representative of the relevant sample and likely to provide the auditor with a reasonable basis for conclusions about the population.

Enhancing Auditing Quality with Artificial Intelligence

There are plenty of challenges with established audit practices. Outdated CAAT tools, sampling practices, and the explosive growth of big data are some of the examples, and they all present significant barriers to detecting anomalies, intentional or otherwise, in financial data. The Pun Group deploys a comprehensive, risk-based approach, complemented by using MindBridge™ Artificial Intelligence Platform, to conduct our audit. Through this tool, we can seamlessly analyze thousands and thousands of financial and operating data and records, **identifying and cataloging significant risks in mere seconds.**



The *AI Auditor* platform works by our side, augmenting our capacity to detect errors or fraud in the collected data not only by analyzing the entire set but by cross-correlating dozens of testing criteria against pre-established data points, and presenting us with a view of every user, vendor, and transaction, by risk. All of this within moments of ingesting analyzed data, which is something standard audit procedures simply cannot accomplish.

We utilize these tools to allow our audit team to increase efficiency in the audit process, to enhance the existing quality of our work, to provide directed testing in areas subject to the highest risk, and to quickly assimilate large amounts of data your staff would typically be asked to gather. The tools also help us to meet our professional requirements regarding fraud and internal control, allowing us to:

- ✓ Run Benford's analysis to check for fraud in transactions.
- ✓ Increase the value of audit findings with complete, 100% data coverage.
- ✓ Isolate risk and control issues before they impact your operations.
- ✓ Improve productivity by automating procedures and eliminating manual tasks.
- ✓ Conduct more direct, efficient, and effective audits to improve overall service quality.

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Our engagement team easily imports data in a secure environment from the District's financial software and extracts useful data for testing and analytical procedures particular to the following areas:

- Successful Fraud Test
- Questionable Invoices
- Phantom Vendor Schemes
- Kickback or Conflict-of-Interest Schemes
- Dormant Account Schemes
- Money Laundering Schemes

Type and Extent of Analytical Procedures to be used in the Engagement

Analytical procedures are one of many financial audit processes that help an auditor understand the client's operation and changes in the environment and to identify potential risk areas to plan other audit procedures. Such procedures include a comparison of financial information on prior periods, budget, forecast, and industry benchmark. We use trend and ratio analysis to identify any uncertain or unusual events. To perform these analyses, our Firm surveys cities and counties and develops benchmarks on specific vital financial indicators, such as the cost of services to tax revenues ratios, average general fund balance, capital assets, debt-to-capital, general fund unassigned fund balance to total general fund expenditures, etc. Our engagement members have extensive experience in successfully implanting analytical procedures to the District's benefit.

Our analytical procedures process is performed during three stages of audit: (a) at the start, (b) in the middle, and (c) at the end. These three stages are risk assessment procedures, substantive analytical procedures, and final analytical procedures:

- **Risk assessment procedures** are used to assist the auditor in understanding the business better and to plan the nature, timing, and extent of audit procedures.
- **Substantive analytical procedures** are used to obtain evidential matter about particular assertions related to the account balances or classes of transactions. During the interim phase, our engagement team will set up expectations for the year-to-date results and balances and compare them with budgeted and prior-year amounts. This process allows us to forecast year-end amounts, reducing the workload during the year-end phase and allowing us to focus on areas of concern.
- **Final analytical procedures** are used as an overall review of the financial information in the last review stage of the audit. The Engagement Partner(s) and Manager(s) will perform a high-level analytical analysis of the financial information, comparing its data both quantitatively and qualitatively to ensure the amounts are fairly presented in all material respect in the financial statements.

Approach to be Taken to Gain and Document an Understanding of the Internal Control Structure

Audit risk assessment is established by an internal control review, combined with the engagement team's understanding of the District's operations and accounting software. Using the Committee of Sponsoring Organizations (COSO) Framework, staff members will evaluate the District's processes and identify any control deficiencies. These diagnostic review procedures allow the engagement team to assess the District's systems and controls and to provide constructive feedback to management.

During our initial planning phase of the audit, our engagement team, including the engagement Partner and Manager, will obtain an understanding of the entity and its environment. It is an essential aspect of performing an audit under generally accepted auditing standards. That understanding establishes a frame of reference within which the auditor plans the procedures and exercises professional judgment about assessing risks of material misstatement of the financial statements and responding to those risks throughout the examination.

During the interim phase of the audit, our engagement team will perform a walkthrough of all significant accounting systems, including processes for financial reporting, revenue recognition and cash receipts, purchasing/contract management and cash disbursements, and payroll and related liabilities and others. Our auditors will obtain the written policies and procedures, inquiring accounting personnel, and document the process in either a flowchart or narrative summary format. After gaining an understanding of the accounting and internal control systems, our auditor will make a preliminary assessment of control risk, at the assertion level, for each material account balance or class of transactions.

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The form and extent of this documentation are influenced by the size and complexity of the entity and the nature of its accounting and internal control systems. Generally, the more complex the entity's accounting and internal control systems and the more extensive the auditor's procedures, the broader our documentation will need to be.

Approach to be Taken in Determining Laws and Regulations that Will be Subject to Audit Test Work

The Firm stays continually up to date with audit requirements—including new regulations, compliance supplements, state guidelines, and related contracts—to ensure that we conduct audits under applicable laws and regulations. We test transactions for compliance with the Single Audit Act, California Government Code, GANN Appropriations Limit, provisions of applicable grant guidelines, requirements of local measures, and others.

For example, the Single Audit Act requires that we determine which grants to include in our audit and select transactions from those grants for detailed testing. While most items will be tested as part of the Interim phase, we cannot determine which grants will be selected for the Single Audit until the year-end/fieldwork stage of the audit.

Our compliance audits of cash, investments, debt covenants, and other areas will be performed following the California Government Code, which has many provisions and regulations covering investments.

Approach to be Taken in Drawing Audit Samples for Purposes of Tests of Compliance

To test compliance, we will follow the AICPA's Audit Sampling Considerations of Uniform Guidance Compliance Audits. We will select an appropriate sample size based on our professional judgment and knowledge. Any deviations from control and compliance requirements will be documented.

Audit Firm's Expectations of the Role and Participation of District's Staff in the Audit Process

The engagement team will meet with the District's management during the initial planning stage to discuss audit schedules and review prior year audit findings (if any). We will provide a list of all documents to be provided by the District's staff. Once such materials are agreed upon by the engagement team and District's finance personnel, no other schedules will be requested unless new information comes to light in the course of test-work.

Our goal is to cause the least amount of interruptions to the District's daily operations; therefore, to the extent possible, we will use information in the form available from the District's records.

We believe client/engagement team communication is vital to perform results satisfactorily. With that sentiment in mind, we will hold regular meetings with the District's management to determine the status of the audit as well as any items which will require special attention. Open and frequent communication is critical.

Objectives of Our Services

Our primary objective for the proposed audit is to examine the District's financial statements and express our opinion on their fairness of the presentation, following generally accepted accounting principles. Other objectives that will benefit the District include the following:

- To offer beneficial observations and recommendations about policies and procedures for accounting and operating controls
- To identify opportunities to make District operations more efficient and reduce costs
- To perform the audit efficiently and effectively, so disruption to office operations is kept to a minimum
- To provide continuing advisory services so the District can implement recommendations
- To meet these objectives at no additional cost to the District

The Engagement Team will perform the audit abiding by the Firm's quality-control procedures, which include following standard audit programs, careful planning, using industry-standardized software for auditing and internal control documentation, and welcoming an objective review of audit work. In other words, our client-tailored approach emphasizes careful planning, open communication, and proper assignment of responsibilities.

The Firm will supply portable computers to the onsite staff members.

How COVID-19 May Affect the District's Financial Reporting

The coronavirus (COVID-19) outbreak — officially a pandemic as of March 11, 2020 — has prompted global health concerns, and its ramifications will likely continue for some time. Our engagement team stands prepared and ready to help you understand how the COVID-19 virus will affect the District's financial statements and reporting.

Close up on Financial Reporting:

The duration and full effects of the COVID-19 outbreak are yet unknown, but the financial impacts are already widespread. When preparing financial statements, the engagement team will consider whether this outbreak will have a material effect on the District:

- Fair value measurements of investments in a time of high market volatility,
- Financial assets, potential impairments and hedging strategies,
- Measurement and funded status of pension and other postretirement benefits (OPEB) plans,
- Liquidity and cash flow risks,
- Accounting estimates,
- Debt service payments.

Disclosure Requirements and Best Practices:

Also, under the US Generally Accepted Accounting Principles (GAAP), when reporting the effects of the COVID-19 outbreak on financial statements, two types of subsequent events must be differentiated:

Recognized subsequent events. These events provide additional evidence about conditions, such as bankruptcy or pending litigation, that existed at the balance sheet date. The effects of these events generally need to be recorded directly in the financial statements.

Nonrecognized subsequent events. These provide evidence about conditions, such as a natural disaster, that didn't exist on the balance sheet. Instead, they arose after that date but before the financial statements are issued (or available to be issued). Such events should be disclosed in the footnotes to prevent the financial statements from being misleading. Disclosures should include the nature of the event and an estimate of its financial effect (or disclosure that such an estimate can't be made).

Important: The World Health Organization didn't declare the COVID-19 outbreak a public health emergency until January 30, 2020. However, events that caused the outbreak had occurred before the end of 2019. So, the COVID-19 risk was present on December 31, 2019. Accordingly, calendar-year entities may need to recognize the effects in their financial statements for 2019 and, if applicable, the first quarter of 2020.

Additional steps and considerations for the Fiscal Year 2020/2021 audit are discussed in the next topic, *"Identification of Anticipated Potential Audit Problems."*

Identification of Anticipated Potential Audit Problems

While we do not expect any problems with the audit, we will carefully investigate and monitor the following relevant accounting issues:

Investments:

- Compliance with GASB 31 and GASB 34
- Authorization and approval process for District investments
- Controls to assure District's compliance with investment limitations and types of specific investments
- Monitoring by the District of its investments

Financial Reporting:

- Compliance with current reporting and disclosure requirements issued by GASB
- Compliance with the various GASBs in effect
- Perform valuations of OPEB benefits to determine the liability for all benefits promised to active, retired, and inactive plan members as of each valuation date
- Compliance with Governmental Accounting Standards Board (GASB) Statements 74 and 75
- Compliance with infrastructure obligations and regulatory provisions

Internal Control Structure:

- District's internal control functions and compliance with proper internal control philosophies
- Computer-system processes and controls, and adequacy of the control environment

Special Audit Considerations for the Fiscal Years 2020/2021*:

- Grant Issues (FEMA, CARES)
- In many cases, governments may not know until they submit for reimbursement how much money they will receive. In those cases, governments should not record revenue until they are awarded a specific amount
- Governments should not report expenditures on the SEFA until the grant is awarded
- CARES funding may be subject to single audit requirements
- Single Audit submission has been extended for six months, including FYE June 30, 2020 filers
- Government programs allowing deferral of customer payments
- In governmental fund types, this may impact the government's ability to record revenue because of the "measurable" and "available" criteria
- In proprietary fund types, this may impact the allowance for doubtful accounts estimates
- Internal controls during COVID – audit impact on possible circumvention of internal controls for emergency purchases or when individuals were not available to sign/approve activities
- Investment losses and credit risk
- Pension and OPEB plans – the impact of investment losses
- Is there an increased risk of litigation?
- Audit response to analytical variances – Set expectations for decreases in sales tax, hotel tax, fee-based revenues such as recreation, library or other community-based services, passenger facility charges, building permits, layoffs/furloughs, expanded senior and low/income program costs
- Going concern evaluations
- Subsequent events footnote disclosures of COVID
- Intermediate changes in the internal controls as a result of a remote workforce

We cannot speculate at this time on the contents of the auditor's reports. However, we expect to be able to discuss the tentative content of the auditor's reports well in advance of the issuance of such reports.

**Not all examples may be applicable to the District.*

Lease Accounting, GASB Implementation, and Reporting Challenges

One of the most critical pronouncements, GASB 87, will have a significant impact on District's financial reporting due to take effect during our engagement. It is important to note how it will impact financial reporting in the upcoming year.

As a result of this implementation, leases previously considered operating leases will be reported on the statement of net position as a lease receivable or a lease liability. In order to understand how this standard applies to different types of leases, proper planning needs to take place.

In order for you to plan for these significant changes, there are several steps that need to be taken. Our GASB Implementation Specialist will guide you through creating a plan for gathering data to define which aspects will apply to your departments. Once we've gathered all of the lease data, we will categorize them, followed by the identification of fixed versus variable payment provisions and other key provisions. Lastly, we will group the leases by similarities and make necessary disclosures. The sooner the plan begins, the easier the transition will be.

In May 2020, the GASB 87 effective date was postponed by 18 months. This pronouncement now requires the adoption of GASB 87 for all fiscal years that begin subsequent to June 15, 2021, hence will come into effect during our engagement with the District:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*

Our engagement team will keep you updated on any changes in the implementation schedule and stand ready to perform the procedures, minimizing any possible setbacks.

Total All-Inclusive Maximum Price

All-Inclusive Maximum Price

Our proposed fees ⁽¹⁾ for Professional Auditing Services for Fiscal Years June 30, 2021, through June 30, 2023, are:

Services	2020-21	2021-22	2022-23
CAFR Audit and Related Reports	\$ 26,000	\$ 26,780	\$ 27,583
Single Audit (1 Major Program)	\$ 4,000	\$ 4,120	\$ 4,244
Maximum Total Fee	\$ 30,000	\$ 30,900	\$ 31,827

- (1) Above Single Audit fees are based on 1 (one) major program. The fee for auditing additional major programs will be \$4,000 each. The number of programs determined to be "major" will be based on OMB Uniform Guidance. The Engagement Team will discuss with the Padre Dam Municipal Water District's Management before starting Single Audit work.
- (2) Services related to the implementation of GASB 87, Leases, and Implementation of Guide No. 2019-3, Leases may require additional charges. The Engagement Team will discuss details with the Padre Dam Municipal Water District's Management before starting GASB 87 implementation work.
- (3) Subsequent years after FY2020-21 will have their fees increased by 3% from the prior-year fee, as shown.

Out of Pocket Expenses in the Total Maximum Price and Reimbursement Rates

The Firm's policy is to maintain flexible billing rates to meet the needs of clients and help them control costs. In the interest of starting our long-term relationship, we will absorb expenses such as travel and printing costs. Additionally, our Partners will be available to provide advice and consultation as necessary to the Padre Dam Municipal Water District. The Firm will also absorb these costs.

Rates for Additional Professional Services

Below are the Firm's hourly billing rates, delineated by staffing levels:

Hourly Billing Rates	
Partner(s)	\$ 250
Manager(s)	\$ 200
Senior Accountant(s)	\$ 150
Staff Accountant(s)	\$ 125
Clerical	\$ 75

Any supplemental reports, audits, or agreed-upon procedures not covered by this proposal may be added in a written agreement prior to commencing audit work. The Firm and the District will discuss and approve the scope and associated costs of these tasks. Any additional work will be performed at the above-quoted hourly rates.

Padre Dam Municipal Water District

Manner of Payment

Engagement Team members are required to maintain timesheets detailing the date, number of hours, and work performed for every audit task. The Firm will collect these timesheets and bill the Padre Dam Municipal Water District, at the rates outlined in the Total All-Inclusive Maximum Price section, in four stages: (1) at the conclusion of the planning phase, (2) at the conclusion of the interim phase, (3) at the conclusion of the Year-End phase, (4) and after presentation and acceptance of the final audit reports. Interim billings will cover a period not less than a calendar month. The billing amounts generally break down as follows:

Work Performed	% of Proposal Amount
Planning	10%
Interim	40%
Fieldwork	40%
Presentation and Acceptance of Reports	10%

Let's Start a Dialogue

Benefits of Choosing The Pun Group LLP

The Pun Group LLP is recognized for its professionalism, integrity, and providing clients with practical solutions unique to their circumstances and issues. Our Firm prides itself on being able to provide personalized client services, and with that sentiment in mind, we have carefully chosen our engagement teams. The Pun Group's primary objective is to give the Padre Dam Municipal Water District solutions and directions, led by highly experienced and capable partners who can successfully implement the work and produce the results you expect. This philosophy and mindset allow us to provide a superior level of service and a quality audit.

We trust that this proposal has given you the information needed about the Firm, the engagement team members, the overall audit approach, cost-saving measures, and audit fees. We are committed to exceeding your expectations, and we look forward to bringing our experience and expertise to the Padre Dam Municipal Water District and providing you with the excellent level of service that you expect and deserve.

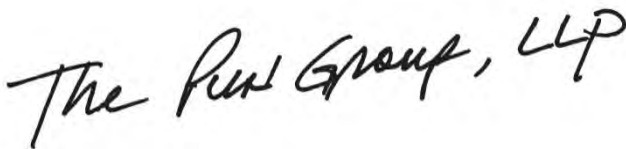
Thank You

Thank you for allowing us to submit our qualifications to provide you with Professional Auditing Services. Please direct inquiries to:

Coley Delaney, CPA
Partner
Email: coley.delaney@pungroup.com
Phone: (858) 242-5101 | Fax: (949) 777-8850

Kenneth H. Pun, CPA, CGMA
Managing Partner
Email: ken.pun@pungroup.com
Phone: (949) 777-8801 | Fax: (949) 777-8850

Sincerely,

A handwritten signature in black ink that reads "The Pun Group, LLP". The signature is written in a cursive, flowing style.

The Pun Group LLP
Certified Public Accountants and Business Advisors

Appendix

- **Proof of Insurance – Sample Certificate**

Padre Dam Municipal Water District

Proof of Insurance – Sample Certificate



CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
2/26/2021

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 Wood Gutmann & Bogart 15901 Red Hill Ave., Suite 100 Tustin CA 92780		CONTACT NAME: Sarah Caballero PHONE (A/C, No, Ext): 714-824-8300 FAX (A/C, No): 714-573-1770 E-MAIL ADDRESS: scaballero@wgbib.com	
		INSURER(S) AFFORDING COVERAGE	NAIC #
		INSURER A : TRAVELERS CAS INS CO OF AMER	19046
		INSURER B : GREAT DIVIDE INS CO	25224
		INSURER C : Travelers Property Casualty Co of Amer	25674
		INSURER D : Travelers Property Casualty	25674
		INSURER E :	
		INSURER F :	

COVERAGES

CERTIFICATE NUMBER: 573457244

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 SUBR INSD WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR <input checked="" type="checkbox"/> \$0 deductible GEN'L AGGREGATE LIMIT APPLIES PER: <input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC OTHER:	Y	6807G5921202142	3/1/2021	3/1/2022	EACH OCCURRENCE \$ 2,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 300,000 MED EXP (Any one person) \$ 5,000 PERSONAL & ADV INJURY \$ 2,000,000 GENERAL AGGREGATE \$ 4,000,000 PRODUCTS - COMPIOP AGG \$ 4,000,000 \$
A	<input type="checkbox"/> AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input checked="" type="checkbox"/> HIRED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input checked="" type="checkbox"/> NON-OWNED AUTOS		BA8L4678832142	3/1/2021	3/1/2022	COMBINED SINGLE LIMIT (Ea accident) \$ 1,000,000 BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$
C	<input checked="" type="checkbox"/> UMBRELLA LIAB <input checked="" type="checkbox"/> EXCESS LIAB <input type="checkbox"/> DED <input type="checkbox"/> RETENTION \$		CUP4H2531482142	3/1/2021	3/1/2022	EACH OCCURRENCE \$ 1,000,000 AGGREGATE \$ 1,000,000 \$
D	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 <input type="checkbox"/> N/A	UB3K6534012142	3/1/2021	3/1/2022	<input checked="" type="checkbox"/> PER STATUTE <input type="checkbox"/> OTH-ER E.L. EACH ACCIDENT \$ 1,000,000 E.L. DISEASE - EA EMPLOYEE \$ 1,000,000 E.L. DISEASE - POLICY LIMIT \$ 1,000,000
B	E&O Retro 12/29/11		CAB20235901	3/1/2021	3/1/2022	3,000,000 agg 1,000,000

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

CERTIFICATE HOLDER

CANCELLATION

Proof of Coverage cert XXXXXXXX XXXXXXXX XX XXXXX	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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ACORD 25 (2014/01)

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200 E. Sandpointe Avenue, Suite 600
Santa Ana, California 92707

www.pungroup.cpa

September 19, 2023

Padre Dam Municipal Water District
Mr. Kevin Woo, Accounting Manager
9300 Fanita Parkway
Santee, CA 92071

RE: Audit Services Contract Extension – Fiscal Year Ended June 30, 2023, through June 30, 2025

Dear Mr. Woo:

I would like to take this opportunity to thank you for the confidence and support the Padre Dam Municipal Water District (the “District”) has provided to us over the past years and present this letter for your consideration regarding extending The Pun Group, LLP’s contract with the District.

We have developed an understanding of the District’s operations that has aided us in providing quality Audit Services. With that knowledge, we have been able to expand our audit efforts and provide observations that have assisted the District’s staff. We have also demonstrated our ability to respond to requests of the District and our ability to deliver quality services. We understand the Padre Dam Municipal Water District has been satisfied with our efforts.

We would like to propose an extension of our Audit Services contract to include the Fiscal Year Ended June 30, 2023, through June 30, 2025. The objective of our audits is to issue an opinion regarding the fairness of the presentation of the District’s financial statements in accordance with generally accepted accounting principles. The proposed total all-inclusive maximum price breakdown is presented as follows:

Services Provided:	2023-24	2024-25	2025-26
Financial Audit of the District	\$ 34,000	\$ 35,700	\$ 37,485
Financial Audit of the ECAWP	\$ 16,000	\$ 16,800	\$ 17,640
Grand Total: ⁽¹⁾	\$ 50,000	\$ 52,500	\$ 55,125

⁽¹⁾ Supplemental reports, audits, or agreed-upon procedures must be added in a written agreement prior to commencing audit work. The Firm and the District will discuss and approve the scope and associated costs of these tasks.

If the District agrees with the foregoing, please sign the copy of this letter in the space provided and return it to us.

We would like to continue our relationship with the Padre Dam Municipal Water District and stand ready to provide the level of service and commitment to which the District has become accustomed. If you have any questions, please call me at (949) 777-8801.

Sincerely,
The Pun Group, LLP

Kenneth H. Pun, CPA, CGMA | Managing Partner

This letter correctly sets forth the understanding of the Padre Dam Municipal Water District as described.

Acknowledged by:

Padre Dam Municipal Water District

Signature

Name and Title

Date



PCAOB Abandons Auditor Rotation

Published Feb. 6, 2014



Vincent Ryan
Senior Reporter-at-Large

After spinning its wheels on auditor rotation for three years, the Public Company Accounting Oversight Board may have finally conceded defeat. On Thursday, according to CFO Journal, PCAOB chairman James Doty told the SEC that “We don’t have an active project or work going on within the board to move forward on a term limit for auditors.” However, Doty added, the PCAOB would “continue to think about what impacts independence.”

Doty’s remarks came at a budget meeting with SEC members.

The PCAOB encountered fierce resistance to the mandatory auditor rotation idea, which never got beyond the concept release stage. It would have required U.S. public companies to change auditors every few years. Even the House of Representatives got in on the act in 2013, passing a bill that would have amended the Sarbanes-Oxley Act to prohibit the PCAOB from requiring companies to “use specific auditors or require the use of different auditors on a rotating basis.”

At the time of the concept release in 2012, Doty noted that the PCAOB had found “hundreds of audit failures” during its inspections and suggested that management influence over auditors may have led to “eroded public confidence in audits.”

Senior finance executives, however, loudly urged the PCAOB to abandon thoughts of requiring corporations to switch their accounting firms regularly. More than 684 letters poured into the PCAOB commenting on the concept release. About 24 percent of them were signed by CFOs, and many others were from chief accounting officers, controllers and audit-committee chairs.

As *CFO* reported in October 2012, Tenet Healthcare CFO Daniel Cancelmi, speaking at a PCAOB meeting, said requiring companies to rotate their auditors would not provide any additional audit quality that wasn't already being provided by having lead audit partners rotate. (Sarbanes-Oxley mandates that the lead partner in an audit firm rotate off an audit project every five years.) "We believe the current five-year rotation requirement of lead audit partners captures substantially all the benefits of mandatory audit-firm rotation in a cost-effective manner, including the important attribute of a fresh set of skeptical eyes," Cancelmi said at the time.

He also said he believed companies that adopted a new audit partner had already jumped through the necessary hoops they'd have to if they hired a whole new audit firm. When the lead audit partner on the Tenet Healthcare account rotates off, he noted at the time, his company's management performs a review and provides all critical background information on the company's business to the new partner, which is "tantamount to the process that occurs when a company changes auditors."

At the same meeting, Patrick Mulva, vice president and controller of ExxonMobil, said global support for mandatory audit-firm rotation was just not there. "Mandatory auditor rotation has been met with . . . universal rejection by board audit committees, including ExxonMobil's, as the proposal diminishes the audit committee's role in hiring, assessing and firing audit firms."

Even those that didn't vehemently oppose the rotation concept and who acknowledged that working toward greater auditor independence was important, although rotation was probably not the best way to do it.

The rotation debate has always centered on a key question: what would make for more effective audits, a fresh pair of eyes (a new accounting firm) or deep — but perhaps compromised — knowledge about the ins and outs of a complex company?

Outside the United States, meanwhile, member states of the European Union have approved new regulations that require audit firms to rotate engagements with public-interest entities every 10 years. The regs must still be approved by the European Parliament and other governmental bodies.

Source: PCAOB's Auditor Rotation Project is Essentially Dead from CFO Journal.

December 9, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street N.W.
Washington, D.C. 20006-2803

RE: PCAOB Rulemaking Docket Matter No. 37

Dear Office of the Secretary:

McGladrey & Pullen, LLP appreciates the opportunity to comment on the PCAOB's *Concept Release on Auditor Independence and Audit Firm Rotation*. McGladrey & Pullen is a registered public accounting firm serving middle-market issuers, brokers, and dealers. Our comments are organized by those that are general in nature regarding auditor objectivity, followed by those that relate to certain matters on which the PCAOB sought comment in the Concept Release.

Objectivity Is Critical to the Viability of Auditing as a Profession

The focal point of the PCAOB's *Concept Release on Auditor Independence and Audit Firm Rotation* is the principle of auditor objectivity. The quality of an audit is built on the competence, independence, integrity, and objectivity of the people who perform the audit. It therefore is imperative that accounting and auditing issues be evaluated with the objectivity and skepticism called for by professional standards. Auditors distinguish themselves by having the ability to consistently make high-quality judgments with an independent mindset. This is where our profession adds value to the capital markets. We do not intentionally arrive at judgments that are not objective. When that does happen, there are serious consequences.

Substantially all auditors are personally committed to the principle of objectivity. Although auditors are bound by a code of ethics that requires it, the exercise of objectivity cannot be legislated through a set of rules that purport to mandate those qualities. Auditors realize that a lack of independence, objectivity, or professional skepticism can have dire consequences, not only for their firm, but also for them personally. Auditors are subject to state laws that generally require CPA firms be owned by individual CPAs. Therefore personal financial resources of our partners are at stake with each audit opinion we sign. Also, a state board of accountancy can suspend or revoke a license to practice if a complaint regarding the auditor's professional conduct is received and found to be valid. Further, both the SEC and the PCAOB can prohibit a CPA from providing services for SEC registrants as a result of an investigation into the auditor's professional activities.

Registered public accounting firms spend significant resources on quality control systems and programs to promote independence, objectivity, and professional skepticism. The requirements for a periodic change in the engagement partner in charge of the audit and the requirement for an engagement quality review necessitate tremendous expenditures of partner time. These requirements, however, provide effective opportunities for bringing a fresh viewpoint to the audit. Audit firms also spend enormous amounts of time and resources conducting their own internal inspections and responding to the inspections of the PCAOB.

The expenditure of resources, both personally and as a profession, in upholding the exercise of objectivity is merely an indication of its importance. Auditors understand that objectivity is critical to the viability of auditing as a profession. Objectivity is a tenet of our profession, and it is what sets our chosen vocation apart from others.

Investor surveys continue to indicate that the independent auditor remains the most trusted participant in the financial reporting process. It is a recognition that we place at the top of our priorities, is essential to our brand, and motivates us to perform our duties at the highest levels of integrity.

Mandatory Audit Firm Rotation Would Not Serve the Board's Goals of Protecting Investors or Enhancing Audit Quality

The PCAOB selects the audits for inspection that it believes present the highest risks and then reviews the areas within each audit that are the most complex and challenging. Inspections are designed to identify and focus on potential audit deficiencies. In Part III.C. of the Concept Release, the PCAOB stated the following regarding the limitations of its inspections data, "Preliminary analysis of that data appears to show no correlation between auditor tenure and number of comments in PCAOB inspection reports." We agree that the PCAOB should further analyze its inspection results and other available information to determine whether audit deficiencies truly are attributable to a lack of auditor objectivity or professional skepticism and further whether any such lack of objectivity or professional skepticism is attributable to auditor tenure.

The root causes of audit failures are complex and vary in nature. Mandatory audit firm rotation is not necessarily a solution to those causes. Even the PCAOB does not suggest that all of the audit failures or other audit deficiencies its inspections staff has detected necessarily resulted from a lack of objectivity or professional skepticism. If auditors approach the audit of highly judgmental balances by seeking to obtain evidence that corroborates rather than challenges the judgments made by their clients, mandatory audit firm rotation would not be a logical solution to that problem. Auditors need to exercise professional skepticism and objectivity in seeking out and evaluating available audit evidence regardless of whether it corroborates or contradicts management's assertion and regardless of engagement tenure.

Moreover, because audit engagements with short tenure are relatively riskier than those with a longer tenure, mandatory audit firm rotation could contribute to a decrease in audit quality. Audit quality may suffer in the early years of an engagement because the auditor does not understand the client's business as fully as he or she does in subsequent years after more experience with the client. The Cohen Commission reported that in its "study of cases of substandard performance by auditors, several of the problem cases were first- or second-year audits." Also, according to a survey by the Government Accountability Office, 79% of larger audit firms and Fortune 1000 companies believed changing audit firms increases the risk of an audit failure in the early years of the audit.

Our Firm's inspection results show no correlation of substandard performance with client tenure. In fact, a root cause for some of our inspection findings has been determined to be an inadequate understanding of the client's business model and the risks associated with it. Mandatory audit firm rotation would only exacerbate this problem. Having a long-term relationship with a client should not breed a lack of objectivity. Rather, we believe we are more effective auditors when we have a deeper understanding of the client's business model.

Professional auditing standards require the auditor to gain an understanding of the client that is sufficient to plan and perform an effective audit. There is a certain amount of learning time necessary to gain the familiarity with a company and its operations that is necessary for an effective and efficient audit. Mandatory audit firm rotation would result in the loss of vast stores of institutional knowledge and guarantee that auditors would be climbing a steep learning curve on a regular basis, especially in audits of multi-national companies where there are many people involved in learning and understanding the business complexities. Rotating the entire engagement team actually creates a greater risk from an audit quality perspective because new auditors need to learn about the client's business, accounting processes, complex transactions, etc.

Ending a firm's ability to have a long-term relationship with a client would increase the amount of time and resources auditors spend proposing to enter new client relationships. This could lead to an unintended consequence of stretching already scarce resources even more and put at risk the amount of time auditors have to focus on audit quality. The competition that would result from mandatory audit firm rotation could actually decrease the amount of fees that a firm obtains in an audit as audit firms aggressively pursue replacement business. This could result in the unintended consequence of a

decrease in audit quality because the amount of fees might put undue pressure on the number of budgeted audit hours committed to an engagement.

Mandatory audit firm rotation could result in other unintended consequences that decrease audit quality. For example, in certain industries, there are a limited number of firms with the requisite specialization to serve clients. Mandatory audit firm rotation could result in an issuer being audited by a firm that does not have the level of industry specialization needed. Geographic constraints also may narrow the field of eligible registered public accounting firms that are able to serve a particular issuer. Realistically, there will be problems associated with the need to transfer audit firm employees to other locations.

Practically speaking, for the largest issuers, there are many instances of independence conflicts that prevent the other Big 4 firms from being considered as a new auditor. If auditor rotation is required, there may not be any other qualified firms to propose to audit the largest issuers. In these cases, since the largest issuers do not have another audit firm to turn to, there is no basis for an auditor to lose its focus on objectivity for fear of losing the client.

Our Views on Other Measures that Could Meaningfully Enhance Auditor Independence, Objectivity, Professional Skepticism, and Ultimately Audit Quality

Because of the lag time in the reporting of PCAOB inspection results and in the implementation time for new auditing standards, the PCAOB should give current reforms time to work their way through future audit engagements and thus enhance audit quality. Through the quality control remediation process, the PCAOB's findings have led to numerous and significant improvements in firm audit methodologies, processes, and related quality control systems. We have noticed an increase in the quality, depth, and tenacity of the PCAOB inspection teams over the years. The thoroughness of these inspections has improved audit quality. A by-product of this process has been an increase in the quality of our internal inspectors and our inspection program, which in turn also has improved audit quality.

The PCAOB has issued a number of important auditing standards and guidance recently that bear directly or indirectly on auditor objectivity and professional skepticism. In August 2010, the PCAOB adopted a suite of eight auditing standards related to the auditor's assessment of, and response to, risk in an audit. In July 2009, the Board adopted the *Engagement Quality Review* standard. The PCAOB also has issued a number of *Staff Practice Alerts*. Some of these standards and guidance are not yet effective or were recently effective, so their effects have not yet been reflected in audits the PCAOB has inspected. It will take several years for the PCAOB to adequately evaluate the full effects of such improvements.

Rather than the PCAOB setting standards regarding mandatory audit firm rotation, audit committees should, and do, initiate firm rotation as they deem necessary or appropriate. Audit committees need to be very diligent in dialoguing with their auditors regarding the quality of their financial reporting. It is important that auditors and audit committees fully engage in meaningful two-way communication, especially as it relates to areas that are highly subjective in nature. Perhaps the PCAOB could provide training materials to inform audit committees about enhancing their oversight in a way that meaningfully improves auditor objectivity.


The auditing profession needs to take responsibility for improving the exercise of objectivity. Audit firms should consider the sufficiency of formal training provided to their auditors regarding the use of auditor judgment. The complexity of today's accounting and auditing issues, together with the effects of challenging economic times, increase both the frequency and the depth of the use of auditor judgment. Additionally, with the movement toward more principles-based standards and more fair value measurements, exercising good professional judgment will be increasingly important for auditors. These factors indicate that even experienced auditors should consistently receive formal in-depth training about how to make and document good judgments and exercise professional skepticism. Because auditing ultimately is about making judgments, auditors must become better at searching through all evidence, acknowledging that there may be biases in what management provides, and supporting conclusions reached through the use of professional judgment with proper documentation.

Because we believe that our reputation for quality is our most valuable asset, we will continue to provide more formal in-depth training to our auditors regarding the use of auditor judgment. Also, after evaluating the root causes of an audit deficiency, if it is determined that there has been a lack of due care on the part of any of our auditors or if an auditor has failed to exercise his or her professional skepticism, there will be ramifications to the auditor initiated by our Firm. We believe the auditing profession must take responsibility for reprimanding or otherwise disciplining any auditor who exhibits a lack of due care or professional skepticism. Ultimately, an auditor who has lost the ability to be objective should no longer represent the auditing profession. It is up to the profession to uphold our reputation and continue to maintain that trust.

Finally, given that PCAOB audit findings indicate consistent performance amongst CPA firms, we question how rotation will improve the results.

We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to Bruce Jorth at 561-682-1623.

Sincerely,

A handwritten signature in cursive script that reads "McGladrey & Pullen, LLP". The signature is written in black ink and is positioned above the printed name of the firm.

McGladrey & Pullen, LLP