

NIPOMO COMMUNITY SERVICES DISTRICT

THURSDAY, JANUARY 17, 2013

9:00 A.M.

SPECIAL MEETING NOTICE & AGENDA FINANCE AND AUDIT COMMITTEE

COMMITTEE MEMBERS

LARRY VIERHEILIG, MEMBER
CRAIG ARMSTRONG, MEMBER

PRINCIPAL STAFF

MICHAEL S. LEBRUN, GENERAL MANAGER
LISA BOGNUDA, ASST GM/FINANCE DIRECTOR
JON SEITZ, GENERAL COUNSEL

**MEETING LOCATION - District Board Room
148 S. Wilson Street, Nipomo, California**

1. CALL TO ORDER, FLAG SALUTE AND ROLL CALL

2. REVIEW AUDIT PROPOSALS FOR FISCAL YEARS 2013, 2014 AND 2015

ACTION RECOMMENDED: Review proposals and make a recommendation to the Board of Directors.

3. ANNUAL REVIEW OF INVESTMENT POLICY

ACTION RECOMMENDED: Review policy and make a recommendation to the Board of Directors.

4. PROPOSED SCHEDULE FOR THE PREPARATION OF THE 2013-2014 FISCAL YEAR BUDGET

ACTION RECOMMENDED: Receive Report and make a recommendation to the Board of Directors.

5. SET DATE FOR NEXT FINANCE AND AUDIT COMMITTEE MEETING

6. ADJOURN

TO: MICHAEL S. LEBRUN *ML*
 GENERAL MANAGER

FROM: LISA BOGNUDA *LB*
 FINANCE DIRECTOR

DATE: JANUARY 14, 2013



**REVIEW AUDIT PROPOSALS FOR FISCAL YEARS
 2013, 2014 AND 2015**

ITEM

Review audit proposals for fiscal years 2013, 2014 and 2015

BACKGROUND

Pursuant to Special District Law, the Board of Directors shall provide for regular audits of the District's accounts and records. An audit is performed on the accounts and records of Nipomo Community Services District every year by an independent Certified Public Accountant (CPA).

The District contracts for auditing services under a three year contract. The three year contract with the Crosby Company is complete.

Staff circulated a Request for Proposal to seven firms and received three proposals. A summary of the three proposals is as follows:

The Crosby Company	FY 2013 - \$7,800 FY 2014 - \$7,800 FY 2015 - \$7,800 Additional fees if single/grant-specific audit is required
Shinault Baker & Company	FY 2013 - \$12,000 + \$500 out-of-pocket costs FY 2014 - \$13,000+ \$500 out-of-pocket costs FY 2015 - \$13,000+ \$500 out-of-pocket costs Additional fees if single/grant-specific audit is required or additional procedures are required
Rogers, Anderson, Malody & Scott, LLP	FY 2013 - \$23,800 FY 2014 - \$24,350 FY 2015 - \$24,750 Additional fees if single/grant-specific audit is required of \$3,585, \$3,675, \$3,675 respectively

RECOMMENDATION

Review audit proposals and make recommendation to the Board of Directors.

ATTACHMENT

- Proposal from The Crosby Company
- Proposal from Shinault Baker & Company
- Proposal from Rogers, Anderson, Malody & Scott, LLP

JANUARY 17, 2013

ITEM 2

ATTACHMENT A

**NIPOMO
COMMUNITY
SERVICES DISTRICT**

AUDIT PROPOSAL

FOR THE THREE YEARS ENDING
JUNE 30, 2015

CROSBY COMPANY, CERTIFIED PUBLIC ACCOUNTANT

1457 MARSH STREET, SUITE 100 - SAN LUIS OBISPO, CA 93401

PHONE: (805)543-6100 FAX: (805)858-9505

December 31, 2012

Board of Directors
Nipomo Community Services District
148 S. Wilson Street
Nipomo, California 93444

Members of the Board:

I appreciate this opportunity to submit a proposal for the audits of the Nipomo Community Services District, for the years ended June 30, 2013; June 30, 2014; and June 30, 2015.

QUALIFICATIONS OF THE FIRM

Crosby Company is a full-service CPA firm, located in San Luis Obispo. I have twenty-nine years of governmental auditing experience. My experience with governmental fund accounting and auditing, and my familiarity with Special District accounts, will enable me to audit and prepare the required reports in the most efficient and timely manner. I will make myself available when you need me, giving prompt, informed responses to your questions, while conducting your audit in a professional, comprehensive manner.

Crosby Company was started on June 1, 2009 and successfully passed a peer review on August 5, 2011. The review indicated "passed with no deficiencies", which signifies that the Firm maintains the highest quality control standards set forth by the American Institute of Certified Public Accountants (AICPA). The review also indicates that: the required continuing education requirements are fulfilled by the owner and staff, adequate work papers are maintained for each audit engagement, and all audit work papers are adequately reviewed.

Crosby Company is independent of the Nipomo Community Services District.

My professional liability insurance coverage totals \$1,000,000.

The following discussion outlines the technical, timing, and fee details of our proposal.

AUDIT APPROACH

I will audit the financial statements of the Nipomo Community Services District for the years ended June 30, 2013, June 30, 2014, and June 30, 2015, for the purpose of expressing an opinion on them. The financial statements are the responsibility of the District's management. My responsibility is to express an opinion on the financial statements, based upon my audits.

Audit Proposal
Re: Nipomo Community Services District

Letter of Transmittal
December 31, 2012

I will conduct the audits of the Nipomo Community Services District on the accrual basis, in accordance with U.S. generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits will provide a reasonable basis for an opinion.

Based on discussions with management, and the review of your operations and accounting systems, I will obtain a firm understanding of your system of internal control and test the effectiveness of the internal controls in place. This will enable me to determine the timing and extent of our substantive audit testing. I will not issue an opinion on the system of internal control. If required, I will issue a management letter at the conclusion of the engagement, informing you of any material weaknesses or reportable conditions I find in the internal control system. I will also include, in the management letter, any business advisory comments or observations I feel may improve the efficiency and effectiveness of operations of the Nipomo Community Services District.

My audit procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and tests of the physical existence of Property, Plant, and Equipment, as well as direct confirmation of receivables and certain other assets and liabilities with certain creditors, legal counsel, and banks. I will search for unrecorded liabilities and perform analytical procedures on the income and expense accounts. In addition, I will compare actual performance to budgeted levels and investigate material discrepancies.

I will prepare the independent auditors' report on the audit of the financial statements of the Nipomo Community Services District, financial statements, and the appropriate footnotes to the financial statements, in accordance with U.S. generally accepted accounting principles.

ENGAGEMENT TIMING

I will meet with the District Staff and Audit Committee, prior to the commencement of the audit to review the audit program. I will provide a list of the schedules and supporting information required for the audits. I expect to commence the audit field work no later than August 15th each year, or as soon as most of the items on our "items needed list" are completed by your staff. I would like to have all audit confirmations mailed as soon as possible, to avoid any confusion in the responses. The annual report draft and management letter can be prepared prior to September 15th for review by District Staff and Audit Committee. I will present the final audit (ten bound copies and one electronic copy) to the District no later than October 15th of each year.

Audit Proposal
Re: Nipomo Community Services District

Letter of Transmittal
December 31, 2012

METHOD AND BASIS OF COMPENSATION

My audit professional staff includes one CPA, one CPA candidate, and an office manager. My fees for these services will be billed at the regular hourly rates for specific staff members involved (\$175 Owner, \$55-\$95 staff accountant). The total current year and two subsequent-years' audits are expected to take approximately 60-hours each to complete. Fees are not expected to exceed \$7,800 per year. This fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances or inflation will not be encountered during the audit.

Additional fees may be required, if the District receives significant funding from Federal sources; the District will be required to perform a single/grant-specific audit. Additional fees will depend on the funding amounts and the complexities of the disbursements.

My firm does not utilize CPA trainees to be in charge of the audit and field work. My clients expect to learn from my expertise, rather than train the staff accountants. I will insure that the books are adequately closed and the proper reversing entries are made for the subsequent year. As I have demonstrated in the past, and with other clients, I will work with the District staff to find ways to minimize the cost of the annual audit. If needed, I will spend extra time to help educate the Nipomo Community Services District's staff on the proper audit procedures and preparation for the audit.

I provide these extra services to maintain a long-term working relationship with all of my audit clients. I believe that the benefits of these extra services streamline future audits and, ultimately, are passed on to the organization in reduced audit rates.

We are enthusiastic about working with you and welcome your inquiries.

Respectfully submitted,



Robert P. Crosby, CPA

CROSBY COMPANY
Certified Public Accountant

REFERENCES
COMMUNITY SERVICE DISTRICT AUDIT CLIENTS

Avila Beach Community Services District Kathy Richardson/John Wallace - General Manager Post Office Box 309 Avila Beach, California 93424 Audited Financial Statements - Fiscal Years Ended 1997 - 2011	(805) 595-2664
Cambria Community Services District Jerry Gruber – General Manager 1316 Tamson Drive, Suite 201 Cambria, California 93428 Audited Financial Statements - Fiscal Years Ended 1999 - 2001, 2009 - 2012	(805) 927-6223
Ground Squirrel Hollow Community Services District John D’Ornellas – General Manager 4870 Heritage Road Paso Robles, California 93446 Audited Financial Statements - Fiscal Years Ended 2007 - 2012	(805) 227-6230
Heritage Ranch Community Services District John D’Ornellas – General Manager 4870 Heritage Road Paso Robles, California 93446 Audited Financial Statements - Fiscal Years Ended 2008 - 2012	(805) 227-6230
Linne Community Services District Ellen Frost – Director 6115 Wildhorse Paso Robles, California 93446 Audited Financial Statements - Fiscal Years Ended 2007 – 2012	(805) 227-4751
Los Osos Community Services District Post Office Box 6064 Los Osos, California 93412 Audited Financial Statements - Fiscal Years Ended 1997 - 2006	(805) 528-9375
Morro Bay/Cayucos Waste Water Treatment Plant Susan Slayton - General Manager 595 Harbor Street Morro Bay, California 93442 Audited Financial Statements - Fiscal Years Ended 2000 - 2012	(805) 772-6221
Nipomo Community Services District Michael LeBrun – General Manager Post Office Box 326 Nipomo, California 93444 Audited Financial Statements - Fiscal Years Ended 2007 - 2012	(805) 929-1133

Audit Proposal
Re: Nipomo Community Service District

Letter of Transmittal
December 31, 2012

Oceano Community Services District
Gina Davis - Assistant General Manager
Post Office Box 599
Oceano, California 93445
Audited Financial Statements - Fiscal Years Ended 1987 – 2000, 2003 - 2006

(805) 481-6730

San Miguel Community Services District
Gib Buckman - Director
Post Office Box 180
San Miguel, California 93451
Audited Financial Statements - Fiscal Years Ended 1999 - 2011

(805) 467-3300

San Simeon Community Services District
111 Pico Avenue
San Simeon, California 93452
Audited Financial Statements - Fiscal Years Ended 1994-1999, 2001-2006

(805) 927-4778

Santa Margarita Fire Protection District
Robert Murach, Jr. - Assistant Fire Chief
Post Office Box 67
Santa Margarita, California 93453
Audited Financial Statements - Fiscal Years Ended 1997 - 2012

(805) 438-5618

Santa Rita Hills Community Services District
Lonnie Lepore/John Wallace – General Manager
P.O. Box 991
Buellton, California 93427
Audited Financial Statements - Fiscal Years Ended 2010 - 2012

(805) 544-4011

South San Luis Obispo County Sanitation District
John Wallace - General Manager
Post Office Box 399
Oceano, California 93406
Audited Financial Statements - Fiscal Years Ended 1988 - 2010

(805) 481-6903

ROY R. SEILER
CERTIFIED PUBLIC ACCOUNTANT

201 C. North Tehama
Willows, CA 95988

Phone: 530-934-8841
Fax: 530-934-8849

System Review Report

August 5, 2011

To the Owner of Crosby Company, Certified Public Accountant
and the Peer Review Committee of the California Society of CPAs

I have reviewed the system of quality control for the accounting and auditing practice of Crosby Company, Certified Public Accountant (the firm) in effect for the year ended March 31, 2011. My peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. My responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on my review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

In my opinion, the system of quality control for the accounting and auditing practice of Crosby Company, Certified Public Accountant in effect for the year ended March 31, 2011, 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 deficiencies*, or *fail*. Crosby Company, Certified Public Accountant has received a peer review rating of *pass*.



Roy R. Seiler, CPA

JANUARY 17, 2013

ITEM 2

ATTACHMENT B



PROPOSAL TO:

Nipomo Community Services District



SHINAULT BAKER & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

5060 California Avenue, Suite 650

Bakersfield, CA 93309

(661) 322-9485 Office

(661) 322-5558 Fax

www.shinaultbakercpa.com

Contact Personnel:

Larry G. Baker, CPA

Audit Partner

Larry@shinaultbakercpa.com

Justin D. Regan, CPA

Manager

Justin@shinanultbakercpa.com

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Firm Qualifications and Experience

Firm Profile

Shinault Baker & Company, Certified Public Accountants was established in Bakersfield, California in September 1986, by Michael D. Shinault, CPA, MST and Larry G. Baker, CPA, as a partnership pursuant to the provisions of Chapter 1, Division 3 of the Business and Professions Code State of California Department of Consumer Affairs, registration number PAR 6085. The firm has no circumstance of disciplinary action taken or pending against them with state regulatory bodies or professional organizations.

At Shinault Baker & Company, our mission is to help clients maintain financial viability in the present, while taking a proactive approach to achieve future goals. This requires open communication to reach an understanding of our clients' needs through research and sound analysis. Shinault Baker & Company is dedicated to meeting these goals with high standards of excellence and professionalism. We have been a staple of Bakersfield's business community for years, and pride ourselves on the level of esteem we have earned. Our dedication to hard work has earned the respect of the business and financial community in and around Bakersfield. We believe this to be a direct derivative of our talent and responsiveness to our client base. Whether you are a current or prospective client, rest assured that individuals and businesses who choose Shinault Baker & Company receive competent and timely advice.

The services provided by our firm consist of the following: accounting services, audits, reviews and compilations, assurance and advisory services, bookkeeping and write-ups, business valuations, cash flow and budgeting analysis, computer consulting, debt and finance advising, employee benefits, pension and profit-sharing plans, entity selection and restructuring, estate and trust planning, financial projections and forecast, financial and retirement planning, international taxation, IRS representation, litigation support and forensic accounting, mergers, acquisitions and sales, payroll services, quick books accounting help and assistance, tax management services and tax preparation.

Location of the Firm

The firm is located at 5060 California Avenue, Suite 650 Bakersfield, California 93309.

Size of the Firm

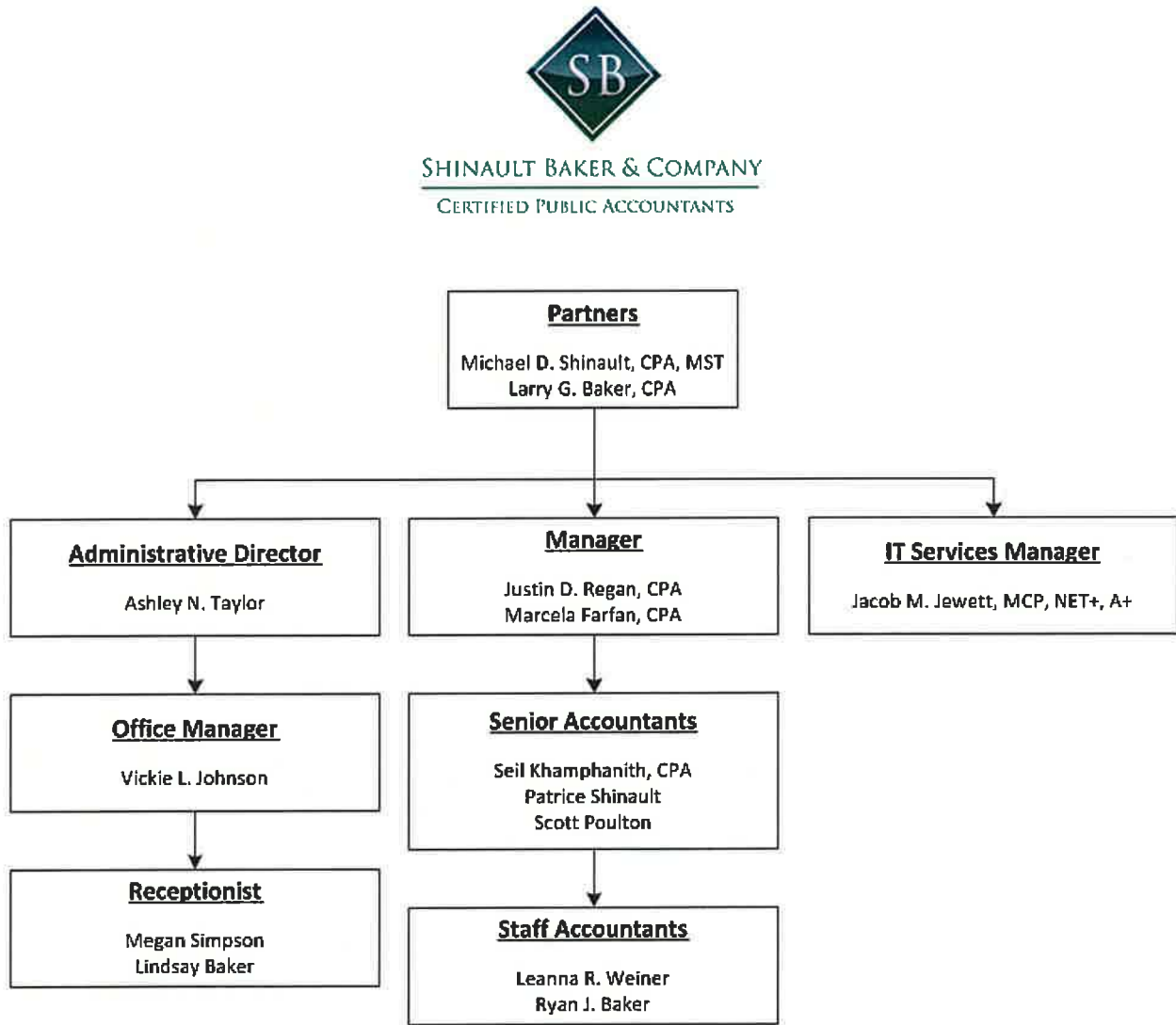
The firm currently employs 14 people, as follows:

<u>Personnel</u>	<u>Total</u>	<u>Government *</u>
Partners	2	1
Managers	2	2
Senior Accountants	3	2
Staff Accountants	2	1
Technical Support	1	0
Administrative Support	4	0
<u>Total</u>	<u>14</u>	<u>6</u>

* Indicates personnel comprising governmental audit staff

Size of the Firm (Continued)

Below is an organizational chart of our firm, including the names and positions of staff indicated:



External Quality Control/Peer Review

Shinault Baker & Company has adopted a system of quality control policies and procedures for the six elements of quality control in accordance with all applicable unconditional and presumptively mandatory requirements of SQCS No. 8, *A Firm's System of Quality Control*. The firm is a member of the AICPA Governmental Audit Quality Center and has agreed to establish policies and procedures specific to the firm's governmental audit practice (as defined in the membership requirements) to comply with the applicable professional standards and the membership requirements of the respective Centers. As required by the membership requirements of the respective Centers, it is the policy of the firm that all eligible audit partners be members of the AICPA.

We are pleased to announce that we received a pass with deficiencies on our peer review with a letter of comments regarding items pertaining to our compilation engagements and the timing of written policies and procedures being adopted. Shinault Baker & Company's system of quality control has always been in place since its date of origination, but an actual written policy was not formerly adopted until early 2012. Regarding the deficiencies that pertain to our compilations engagements, we have since required engagements letters for each level of service we provide and have completed the necessary disclosure forms for each engagement to ensure conformity with the applicable standards.

A copy of the results of our latest peer review follows on the next two pages.



System Review Report

August 3, 2012

To the Partners
Shinault Baker & Company
and the Peer Review Committee of the CA Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Shinault Baker & Company (the firm) in effect for the year ended April 30, 2012. Our review was conducted in accordance with Standards for Performing and Reporting on Peer Review established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under Government Auditing Standards.

We noted the following deficiencies during our review:

1. Deficiency - The firm's quality control policies and procedures require engagement letters be acquired for all audit Review and compilation engagements. However, our review disclosed the firm did not obtain such engagement letters for the compilation engagement which included disclosures and the compilation engagement which omitted disclosures included in our review, thus not meeting professional standards requiring engagements letters. The firm will obtain such letters before performing the compilation engagements for the current year.

Recommendation - We recommend that the firm comply with current professional standards by obtaining engagement letters for all compilation engagements.

2. Deficiency - The firm's control policies and procedures for engagement performance regarding consultation requires the firm to refer to its practice aids to assist in implementing professional standards, our review disclosed instances where the firm did not adequately consult its practice aids. As a result, in the compilation engagement that included disclosure and the engagement that omitted disclosure selected for review, the firm did not properly segregate certain components of loans payable between their current and long-term portions (all presented as long-term), and the amounts were considered to be significant to the

financial statement presentation. As such, these financial statements were not presented in accordance with professional standards. The firm indicated they will correct the reclassification issue in the current year compilation engagements.

Recommendation - We recommend that the firm review current professional standards as related to the proper classification of liabilities between current and non-current portion, then modify its current policies and procedures to include a mechanism for assuring that the firm's practice aids are more fully utilized. This could include a more comprehensive review of the workpapers during the review process.

3. Deficiency - The firm had not established its written quality control system until just prior to its peer review, thus it was not in accordance with current professional standards. As a result the firm had not established a requirement to perform timely inspections as a part of the monitoring procedures.

Recommendation - We recommend that the firm update its own quality control policies on a timely basis for procedures for its unique practice areas to ensure that the firm will meet all the requirements of quality control for a CPA firm, including the requirement to perform comprehensive annual inspections.

In our opinion, except for the deficiencies noted above, the system of quality control for the accounting and auditing practice of Shinault Baker & Company in effect for the year ended April 30, 2012 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*. Shinault Baker & Company has received a peer review rating of pass with deficiencies.



Caliber Audit & Attest, LLP

Partner, Supervisory and Staff Qualifications and Experience



The majority of audit clients served by Shinault Baker & Company consist of Governmental Agencies and Non-Profit Organizations, which require audits to be performed in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in Government Auditing Standards (GAS). The Partner group prides themselves on staying current on accounting updates (i.e. auditing standards and tax rules and regulations) by maintaining exceptionally well trained professional staff and by monitoring continuing professional education for all employees, as part of its system of quality control. Some of the most recent updates the professional staff have received training on, consist of Government Auditing Standards Board (GASB) codification efforts, GASB updates on GASB 60-68, Government Auditing Standards Revisions, which consist of bringing uniformity to audits, incorporating the American Institute of Certified Public Accountants (AICPA) and establishing additional requirements beyond Generally Accepted Auditing Standards (GAAS) and the AICPA Clarity Project. All audits conducted in accordance with GAS will be under the strict supervision of Larry G. Baker and Justin D. Regan to ensure compliance with the additional procedures that are required by those standards.

Michael D. Shinault has been a Certified Public Accountant since 1994, license number 67327. Larry G. Baker has been a Certified Public Accountant since 1982, license number 35718E. They are members in good standing with the California State Board of Accountancy. The firm also has no circumstance of disciplinary action taken or pending against them with state regulatory bodies or professional organizations. In addition to the two partners, the firm has a staff of seven full time auditors and accountants, one in-house IT manager, one administrative director, one office manager and two receptionists. The partner responsible for executing the proposed agreement and the audit report(s) will be Larry G. Baker. He can be reached at (661) 322-9485 for any questions or comments or by fax at (661) 322-5558.

Audit Team

We have identified the key members of our audit team in a list below which will be involved on a full-time basis for your District's audit and have also included a resume for all partners, managers and senior accountants that are assigned to your engagement on the pages that follow:

Shinault Baker & Company's Audit Team Members

Larry G. Baker, CPA	Audit Partner
Justin D. Regan, CPA	Manager
Marcela Farfan, CPA	Manager
Seil Khamphanith, CPA	Senior Accountant
Scott Poulton	Senior Accountant
Ryan Baker	Staff Accountant

Shinault Baker & Company does not have any part-time staff assigned to this audit engagement.

Continuing Education is performed for all our professionals twice a month during lunch hours (12:00 PM to 2:00 PM) in the form of webinars that are conducted in our conference room on relevant audit updates and tax issues that pertain to our firm and client industry. In addition, our senior level and above accountants receive training year round at various continuing education classes and seminars at venues arranged by the AICPA and the California Society of Certified Public Accountants.

Larry G. Baker, CPA
Audit Partner



Academic Background

California State University, Bakersfield, 1977
Bachelor of Science in Business Administration and Accounting

Certifications

Certified Public Accountant, 1982

Professional Associations

American Institute of Certified Public Accountants
California Society of Certified Public Accountants

Experience

Mr. Baker left Bakersfield upon graduation to obtain his certified public accounting experience with the Los Angeles office of the international accounting firm of Price Waterhouse & Co. As a member of the Price Waterhouse Co. auditing department, Mr. Baker planned, supervised and managed audit engagements for large and medium sized companies such as Carter Hawley Hale Stores, Inc., The Parson's Corporation and Kaufman and Broad, Inc. Mr. Baker will be in charge of supervising and reviewing the audit.

School Districts

Arvin Union School District
Mojave Unified School District

Special Districts

Arvin Community Services District
Eastern Kern Air Pollution Control District
Lebec County Water District
Westside Mosquito & Vector Control District
North Kern Cemetery District

Non-profits

Independent Living Center of Kern County
Golden Empire Gleaners, Inc.
Westside Energy Services Training
Bakersfield Crisis Pregnancy Center
Community Connection for Child Care Foundation
The Hope Center
Cero Coso College Foundation
Porterville College Foundation

Performance Audits

Beardsley School District (Prop 39)
Lost Hills School District (Prop 39)
Kern Community College District (Prop 39)
Mojave Unified School District (Prop 39)
McFarland Unified School District (Prop 10)

Other

Guardian Capital Lending
Independent Oil Producers Agency
Kern County Law Library
Ventura County Law Library
Bakersfield College Foundation
Delano Association for the Developmentally Disabled
Taft College Foundation
Renewable Management Corporation
Wind Energy Services

Continuing Education

Mr. Baker has adequate continuing education (2010-2012) that consist of the following:

Tax Research Techniques and Functions	2010 1040 Individual Tax
Assisting Small Business From A to Z	Fraud II Detection
Compilation and Review Current Issues	PPC Gear Up Conference (2012)

Ethics and Professional Conducted and Ethics for California CPA's
Audits of Local Governments, Risk Assessment, Internal Controls Concluding Audit

Justin D. Regan, CPA
Manager



Academic Background

California State University, Bakersfield, 2008
Bachelor of Science in Business Administration and Accounting

Certifications

Certified Public Accountant, 2012

Experience

Mr. Regan has four years of public accounting experience and audit experience with governmental, non-profit, private and compliance audits, as well as tax engagements. He was hired in February of 2008 and he is presently responsible for governmental and special district audits, non-profit audits, and tax and compilation engagements.

School Districts

Arvin Union School District
Mojave Unified School District

Special Districts

Arvin Community Services District
Eastern Kern Air Pollution Control District
Lebec County Water District
Westside Mosquito & Vector Control District
North Kern Cemetery District

Non-profits

Golden Empire Gleaners, Inc.
Westside Energy Services Training

Performance Audits

Kern Community College District (Prop 39)
Mojave Unified School District (Prop 39)

Other

Independent Oil Producers Agency
Kern County Law Library
Bakersfield College Foundation
Delano Association for the Developmentally Disabled
Taft College Foundation
Renewable Management Corporation
Wind Energy Services

Continuing Education

Mr. Regan has adequate continuing education (2010-2012) that consists of the following:

PPC and Audit Watch – Audit Quality and Efficiency (2011)
2010 Health Care Reform Act: History and Background (2012)
2010 Health Care Reform Act: ‘Provisions in 2010’ & ‘Health Care/Education Reconciliation Act’ (2012)
PPC Gear Up Conference (2012)

GASB updates, single and general audit updates, accounting and audit updates and GASB updates, were conducted in house by a local accounting firm in Bakersfield.

Marcela Farfan, CPA
Manager



Academic Background

University of Southern California, Marshall School of Business, 2000
Bachelor of Science in Business Administration

Certifications

Certified Public Accountant, 2011

Experience

Mrs. Farfan has ten years of public accounting experience and audit experience with governmental, non-profit, private and special district audits. She was hired in February 2007 and she is presently responsible for governmental and special district audits, non-profit audits, financial audits, and tax and compilation engagements.

School Districts

Arvin Union School District
Mojave Unified School District

Special Districts

Arvin Community Services District
Eastern Kern Air Pollution Control District
Lebec County Water District
Westside Mosquito & Vector Control District

Non-profits

Independent Living Center of Kern County
Golden Empire Gleaners, Inc.
Westside Energy Services Training

Performance Audits

Beardsley School District (Prop 39)
Lost Hills School District (Prop 39)
Kern Community College District (Prop 39)
Mojave Unified School District (Prop 39)
McFarland Unified School District (Prop 10)

Other

Guardian Capital Lending
Independent Oil Producers Agency
Kern County Law Library
Ventura County Law Library
Bakersfield Barber College, Inc.

Continuing Education

Mrs. Farfan has adequate continuing education (2010-2012) that consists of the following:

PPC and Audit Watch – Audit Quality and Efficiency (2011)
Sales and Use Tax Work Shop (2011)
Tax Procedures (2011)
Accounting and Auditing Update (2012)

GASB updates, single and general audit updates, accounting and audit updates and GASB updates, were conducted in house by a local accounting firm in Bakersfield.

Seil Khamphanith, CPA
Senior Accountant

Academic Background

California State University, Bakersfield, 1999
Bachelor of Science in Business Administration
Concentrations in Accounting and Finance

Certifications

Certified Public Accountant, 2010

Experience

Ms. Khamphanith began her career in private accounting within the medical and rental industry for eight years. She joined Shinault Baker & Company in 2007 and presently works on governmental and special district audits, non-profit audits, compliance audits, and compilation and tax engagements. Ms. Khamphanith has four years of experience in auditing.



School Districts

Arvin Union School District
Mojave Unified School District
West Kern Community College District

Special Districts

Arvin Community Services District
Westside Mosquito & Vector Control District
North Kern Cemetery District

Other

Independent Oil Producers Agency
Kern County Law Library
Bakersfield College Foundation
Taft College Foundation

Performance Audits

Mojave Unified School District (Prop 39)

Non-profits

Golden Empire Gleaners, Inc.
Westside Energy Services Training
Delano Association for the Developmentally Disabled
Bakersfield Crisis Pregnancy Center
The Hope Center
Independent Living Center of Kern County
Cero Coso College Foundation
Porterville College Foundation

Continuing Education

Ms. Khamphanith has adequate continuing education (2010-2012) that consists of the following:

Governmental Accounting and Auditing Conference (2010)
Not-For-Profit Organizations (2010/2011/2012)
Non-Profit Audit Update (2011)
Ethical and Legal Standards (2011)
Staff Training for Accounting and Auditing: Beginning-in-Charge (2011)
Auditing Standards: A Comprehensive Review (2011)
GASB Update (2012)
Audit Update (2012)
Compilation and Review Essentials: Rules for Local Practitioners (2012)
Basis Calculations & Distributions for Pass-Through Entity Owners: Schedule K-1 Analysis (2012)
Passive Activities and Rental Real Estate Income Tax Issues (2012)
Partnership and LLC (Form 1065) Tax Return Review and Case Study (2012)
Corporation (Form 1120S) Tax Return Review and Case Study (2012)
The Accountants Responsibility for Fraud (2012)

Scott Poulton
Senior Accountant



Academic Background

California State University, Bakersfield, 2008
Bachelor of Science in Business Administration and Accounting

Experience

Mr. Poulton has four years of public accounting experience and audit experience with governmental, non-profit, private and compliance audits, as well as engagements. Mr. Poulton is currently studying for the CPA exam. He was hired in December 2011 and he is presently responsible for governmental and special district audits, non-profit audits, and tax and compilation engagements.

School Districts

Arvin Union School District
Mojave Unified School District

Special Districts

Arvin Community Services District
Eastern Kern Air Pollution Control District
Lebec County Water District
Westside Mosquito & Vector Control District
North Kern Cemetery District

Other

Independent Oil Producers Agency

Performance Audits

Beardsley School District (Prop 39)
Lost Hills School District (Prop 39)
Kern Community College District (Prop 39)
Mojave Unified School District (Prop 39)
McFarland Unified School District (Prop 10)

Non-profits

Independent Living Center
Golden Empire Gleaners, Inc.
Westside Energy Services Training
Bakersfield Crisis Pregnancy Center
Community Connection for Child Care Foundation

Continuing Education

Mr. Poulton has adequate continuing education (2010-2012) that consists of the following:

GASB Update (2010/2012)
Accounting & Audit Update (2010)
Single & General Audit Update (2010)
Audit Update (2012)
Year End Government and Nonprofit Update (2012)
PPC Gear Up Conference (2012)

GASB updates, single and general audit updates, accounting and audit updates and GASB updates, were conducted in house by a local accounting firm in Bakersfield.

Similar Engagements with Other Government Entities

Through the years, Shinault Baker & Company has cultivated a reputation for capabilities that transcend credentials. Entities across the board have come to rely on our honesty, as well as our ability. They know we carry through with solid consulting based on a thorough understanding of needs and requirements. Our clients and community know they can count on us to go the distance and do the right thing.

Shinault Baker & Company has performed audit services for the following clients listed below (a complete client listing will be provided upon request):

Proposition 39 Financial and Performance Audits:

- Beardsley School District
- Kern Community College District
- Mojave Unified School District

Financial Statement Audits:

- Eastern Kern Air Pollution Control District
- West Side Mosquito Vector & Control District
- Arvin Community Services District
- Eastern Kern Air Pollution Control District
- Lebec County Water District

Non-Profit Audits:

- Independent Living Center
- Golden Empire Gleaners, Inc.
- Westside Energy Services Training
- Community Connection for Child Care Foundation
- Bakersfield Crisis Pregnancy Center

The following is a list of special district client references:

Arvin Community Services District – 309 Campus Drive, Arvin, CA 93203, Accounting Services-Bookkeeping and Design of Internal Control Policies, Fernando Pantoja (661) 854-2587.

Lebec County Water District – P.O. Box 910, Lebec, CA 93243, Financial Statement Audit, Debbie Bechtel (661) 248-6872.

Stockdale Ranchos Mutual Water Company – 5060 California Avenue, Suite 650, Bakersfield, CA 93309, Accounting Services, Bob Brumfield (661) 328-9630.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and will include tests of the accounting records of Nipomo Community Services District and other procedures we consider necessary to enable us to express such opinions.

We will also provide a report (that does not include opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts and grant agreements,

noncompliance with which could have a material effect on the financial statements as required by Government Auditing Standards.

Audit Time Estimates

<u><i>April 22nd</i></u>	Meet with District Staff and the Audit Committee to gain and understanding of internal controls in place for significant audit areas.
<u><i>April 22nd</i></u>	Obtain copies of financial records to begin audit planning.
<u><i>August 15th</i></u>	Begin fieldwork at client's office.
<u><i>August 30th</i></u>	Exit meeting, notifying client of process of audit and any outstanding open items.
<u><i>September 7th</i></u>	Completion of audit work papers.
<u><i>September 7th</i></u>	Completion of financial report.
<u><i>September 10th</i></u>	Partner review of audit.
<u><i>September 15th</i></u>	Meet with District Staff and the Audit Committee to review the administrative draft of the audit report. Make any changes proposed by client.
<u><i>October 15th</i></u>	Attend regularly scheduled Board Meeting, before October 15 th to present the final audit report to the Board of Directors. Firm with submit one (1) electronic copy of the audit as well as ten (10) bound copies to the District no later than October 15 th as well.

*Note: Some dates are estimations based on whether the date above falls on a non-business day over the next 3 years of this engagement contract.

Total All-Inclusive Maximum Price

Our fees for the audit services rendered will consist of the following: \$11,000 respectively for fiscal year ending June 30, 2013, \$12,000 respectively for fiscal year ending June 30, 2014 and \$13,000 respectively for fiscal year ending June 30, 2015. The increase in fees for our services as compared to previous auditors is a result of additional procedures that will need to be performed while conducting our audit. As previously discussed in our Partner, Supervisory and Staff Qualifications and Experience section, new accounting pronouncements and recent updates for the accounting profession require certain implementations of accounting standards with the GASB codification efforts and the AICPA's additional requirements beyond that of GAAS. As part of the increase in fees compared to previous auditors, as stated above, we also noted a few potential issues that would affect our reliance on procedures performed for fiscal year ended June 30, 2012.

Per our review of the Nipomo Community Services District Financial Statements for the year ended June 30, 2012 and inquiries with Lisa Bognuda, Assistant General Manager, we noted the following potential issues that if not performed in fiscal year 2012 may call for extended procedures to be performed in fiscal year 2013 in order to be able to rely on audited numbers for the fiscal year 2012:

1. Confirmations related to assets (cash, accounts receivable, etc...) and liability account balances (debt) were not confirmed with funding sources, creditors or financial institutions. Also written representations from the District's attorney were not provided for fiscal year ended June 30, 2012.
2. The independent auditors' report did not disclose nor reference that the audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). There was also no reference made to the report on internal control over financial reporting on Compliance and other Matters based on an audit of financial statements performed in accordance with GAGAS.
3. Identifying the date through which subsequent events had been evaluated was not disclosed in the notes of the financial statements, which is a mandatory requirement of GASB No. 56 codification of accounting and financial reporting guidance contained in the AICPA statements on auditing standards
 - o The combination of items 1 through 3, if not performed in previous audits, raise our attention to question if adequate procedures as required by GAAS and extended procedures required by GAGAS have been performed regarding commitments and contingencies, subsequent events, related party transactions and evaluation of the districts significant estimates (i.e. budgeted amounts, allowance for doubtful accounts, going concern issues, journal entries posted, etc...).
4. The disclosure of property taxes was not properly presented. Indication of the District's tax calendar, which includes: lien date, levy date, due dates and delinquent dates should have also been disclosed.
5. The District's liability for unpaid employee benefits was not properly disclosed in the notes to the financial statements, breaking down sick time and vacation time that was accrued as of fiscal year end 2012.
6. The disclosure of geographic dependency should be indicated in the notes to the financial statements to disclose to its readers the potential impairments and any change in the availability of or demand for water that could negatively impact the District's operations.

Here at Shinault Baker & Company it is our responsibility to conduct our engagements with high standards of excellence and professionalism and to ensure compliance for each and every engagement. The information above summarizes the reasoning for the increase in fees for audit services as compared to

previous auditors, so that our firm can make certain your District is in compliance with accounting standards applicable to the Nipomo Community Service District.

You will also be billed for travel and other out-of-pocket costs such as report production, word processing, postage, etc. these additional expenses will not exceed \$500 each year. Hourly rates charged by our firm's professional staff consist of the following: Partners \$175 an hour, Managers \$115-\$135, Senior Accountants \$90-110 an hour and Staff Accountants \$60-\$80 an hour. The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 60 days or more overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

We appreciate the opportunity to be of service to you and believe the attached letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this proposal and the attached letter, please sign the enclosed copy and return it to us.

JANUARY 17, 2013

ITEM 2

ATTACHMENT C

NIPOMO COMMUNITY SERVICES DISTRICT

Proposal for Professional Auditing Services

For the fiscal years ending June 30, 2013, 2014 and 2015

PREPARED BY:

ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS

735 E. Carnegie Drive, Suite 100
San Bernardino, California 92408
(909) 889-0871

CONTACT: SCOTT MANNO, PARTNER
smanno@ramscpa.net

ALTERNATE CONTACT: TERRY SHEA, PARTNER
tshea@ramscpa.net



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

January 7, 2013

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

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January 7, 2013

Nipomo Community Services District
148 South Wilson Street
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MANAGERS / STAFF

Nancy O'Rafferty, CPA, MBA
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Megan Hackney, CPA
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA

Rogers, Anderson, Malody & Scott, LLP is pleased to present this proposal for professional auditing services to the Nipomo Community Services District (the District).

For 64 years, Rogers, Anderson, Malody & Scott, LLP has been providing honest, accurate, and objective results to all of our clients, including governmental agencies such as yours. We pride ourselves on developing solid relationships with all of our clients, but first and foremost, we view our relationship with you as professional; we are your auditor and advisor. That is what we have been hired to do; these are the responsibilities we are hired to fulfill.

Our extensive experience has helped us understand the complex requirements and issues encountered by agencies like yours. We also understand the desire for the timely delivery of accurate reports and the desire for a quality audit performed in a competent and efficient manner. We pride ourselves on helping you meet all reporting/auditing deadlines, resolving any issues encountered during your audit (e.g., accounting or auditing, new pronouncements, etc.), and by providing you with quality audit services.

We understand that the District has requested proposals from many other firms, but feel we would be the most qualified choice for the District's engagement based on the following:

1. As a recognized leader in the governmental accounting and auditing community, we are committed to providing excellent, timely service and quality reports to all of our clients. We take pride in providing the most experienced and technically skilled professionals on all of our engagements. We strive to recruit and retain the best and brightest professionals in our field ensuring you receive qualified professional staff on your engagement. In addition, our staff prides itself on being able to take a proactive approach to serving the District by actively seeking opportunities to improve the efficiency and effectiveness of its operations. Simply stated, we are a full service firm committed to providing the highest standards of quality and professionalism to all of our clients.

MEMBERS

American Institute of
Certified Public Accountants

*PCPS The AICPA Alliance
for CPA Firms*

*Governmental Audit
Quality Center*

California Society of
Certified Public Accountants

2. We understand that the audit process as a whole can be a taxing experience for you and your staff; we understand that you will have other commitments and your regular workloads during the audit period. For all of our clients, we make every effort to ensure the audit process, from the interim field work to the preparation of any required reports, will be as trouble-free as possible for you and your staff. We do this by planning the audit properly and utilizing our staff in the most efficient and effective manner. Also, we keep an open line of communication with all parties involved in the audit process.
3. As governmental accountants and auditors, we understand the time constraints that our clients face. Therefore, as with all of our clients, we will be committed to performing quality work within any required time frames.

After reading through our proposal, we hope that you will have gained an understanding of our firm's commitment to our clients. We are committed to providing exceptional and timely service, quality products, and experienced staff to all of our clients, whether new or continuing. As you can see, we are also upfront and honest in dealing with all of our clients.

We understand the scope of the work to be performed, auditing standards to be followed, and the reports to be issued, as described in the District's *Request for Proposal*. In addition, we will be committed to performing the work within the proposed time period.

Mr. Shea and Mr. Manno, Partners, are authorized to act on behalf of Rogers, Anderson, Malody & Scott, LLP. They can be reached at: 735 E. Carnegie Drive, Suite 100, San Bernardino, CA 92408, (909) 889-0871, tshea@ramscpa.net or smanno@ramscpa.net.

Thank you for the opportunity to serve the Nipomo Community Services District. We look forward to having a long and mutually beneficial association.

Respectfully yours,

ROGERS, ANDERSON, MALODY & SCOTT, LLP



Scott W. Manno, *Certified Public Accountant*
Partner

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

License to practice in California and Independence

License to practice in California

Rogers, Anderson, Malody & Scott, LLP is licensed to practice in the State of California. The key professional staff, which includes the partners and managers, are all certified public accountants licensed to practice in the State of California.

Independence

Rogers, Anderson, Malody & Scott, LLP is independent of the Nipomo Community Services District as defined by general standard number two of the generally accepted auditing standards.

We are also independent of the Nipomo Community Services District as defined by the second general standard for government auditing in the U.S. Government Accountability Office's *Government Auditing Standards* (2011).

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Firm qualifications and experience

About our firm

Rogers, Anderson, Malody & Scott, LLP is a local firm and was founded in 1948. We are located at 735 E. Carnegie Drive, Suite 100, San Bernardino, California. We are one of the oldest CPA firms in Southern California, with over 64 years of public practice experience, specializing in governmental agency auditing, accounting and management advisory services. Over *fifteen thousand hours per year* are devoted to this area of our practice, which includes cities, redevelopment agencies, water districts, other special districts, nonprofit corporations and joint power authorities.

Our firm has a total staff of thirty-six individuals, which includes seventeen certified public accountants. Our staff consists of six partners, three managers, ten seniors/supervisors, thirteen staff accountants and four support staff. Our municipal audit staff consists of twenty-three members who devote approximately 75% of their time to municipal engagements. Tentatively, the audit team assigned to the District's engagement will consist of the following full-time staff: two audit partners and two auditing professionals. There will be no part-time staff assigned to the engagement. All personnel are located in our San Bernardino office.

As governmental auditors, we understand that the District desires its auditors to have a thorough understanding of the complex accounting and compliance issues confronting governmental entities such as yours. Our firm is committed to providing our clients with the highest quality service at the most reasonable fee. The professionals assigned to the District financial audit have each made providing quality services their priority.

As stated earlier, our firm has a long history of governmental accounting and auditing. Over the years, we have gained valuable experience, acquired an in-depth knowledge and obtained the technical expertise needed for governmental accounting and auditing. Our firm's partners and professional staff assigned to the District have performed audits, various accounting services and management advisory services for many governmental agencies like yours.

Relevant audit experience

The following is a listing of current clients for whom we provide audits similar to the type requested:

<i>Rossmoor Community Services District</i>	<i>San Bernardino Valley Municipal Water District</i>	<i>Crestline Village Water District</i>
<i>Running Springs Water District</i>	<i>Saticoy Sanitary District</i>	<i>Valley Water District</i>
<i>Crestline-Lake Arrowhead Water Agency</i>	<i>Ventura Regional Sanitation District</i>	<i>Western Municipal Water District</i>
<i>Big Bear Area Regional Wastewater Agency</i>	<i>Helendale Community Services District</i>	<i>Inland Empire Resource Conservation District</i>
<i>Idyllwild Water District</i>	<i>Pine Cove Water District</i>	<i>City of Norco*</i>
<i>Helix Water District</i>	<i>Vista Irrigation District</i>	<i>City of Grand Terrace*</i>
<i>Heartland Communications Facility Authority</i>	<i>City of Rosemead*</i>	

* Includes Water or Wastewater Enterprise Funds

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Firm qualifications and experience (continued)

We have also performed audits for redevelopment agencies, pension plans, and compliance requirements in accordance with *OMB Circular A-133*. In addition, we have provided audit and consulting services for various private enterprises.

The firm provides various other services to governmental agencies. Services to these governments, in addition to auditing services, include:

- Study and evaluation of financial condition and fiscal policies
- Transient Occupancy Tax Agreed Upon Procedures
- Transportation Fund audits
- Financial projections
- Organizational studies
- Franchise (refuse, cable) Agreed Upon Procedures
- EDP control reviews and computer feasibility studies
- System design, analysis, and review
- Job classification and compensation studies
- Accounting policies and procedures
- Utility rate studies
- Cost control and cost allocation plans
- Capital improvement program procedures and policies
- Cash management studies
- Financing and public bond offering assistance
- Assistance in development of internal audit programs
- Employee benefit consulting
- Franchise agreement assistance (ambulance, cable, television, refuse, etc.)

We also provide audit, tax and consulting services to various not-for-profit and for-profit enterprises.

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Firm qualifications and experience (continued)

Single audit experience

Over the past several years, all of our city clients have been subject to an audit in accordance with OMB A-133. In addition, we have many other government and nonprofit clients that are also subject to single audit standards. A current audit client of ours receives approximately 90% of its revenues from Federal, State, and local grants. For the fiscal year ending June 30, 2012 we performed single audits for the City of San Bernardino, the City of Goleta, the City of Norco, the City of El Cajon, and the City of Twentynine Palms.

External quality control examinations

As a member of the AICPA Private Companies Practice Section, our firm has participated in "Peer Review" since 1993 and has been examined every three years since that date. During participation in this program, the firm has received unqualified opinions from the peer reviewers. A copy of our most recent external quality control review dated May 31, 2012 for the year ended November 30, 2011 (Attachment A) is attached. The latest review included reviews of specific governmental agencies.

The firm is not aware of any federal or state desk reviews or field reviews of its audits during the last three years.

The firm **has never** had any disciplinary action taken or pending against it with state regulatory bodies or professional organizations, nor has it ever had any pending or settled litigation, civil or criminal investigations. Our firm does not have a record of substandard work.

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Partner, supervisory and staff qualifications and experience

The quality of service you receive is dependent on the capabilities of the individuals assigned to the engagement and the manner in which those personnel resources are organized to efficiently focus their abilities on providing you with the requested audit services.

Our engagement team will provide significant experience coupled with an extensive, practical understanding of governmental accounting and auditing. These professionals are highly trained and knowledgeable and have a thorough understanding of the environment in which governmental entities operate.

Partner and supervisory staff involvement

All partners and supervisory staff are working professionals and are actively and continually involved in all aspects of their engagements. We believe that partner and supervisory level staff personnel involvement in all areas of the audit is a key aspect of the overall audit process. This involvement includes being on-site for interim and year-end fieldwork; thus, facilitating a proper, efficient and effective audit, with minimal disruption of the District's staff. In addition, the time spent on-site by the partners and supervisory staff ensures they gain an understanding of all the District's accounting processes and procedures. This understanding will enable them to evaluate and develop opportunities for efficiency as well as offer practical and functional advice for improving your accounting processes and procedures.

Continuity of audit staff is a principal concern with our firm. Therefore, we plan to provide staff continuity from year to year, which is in the best interest of the District and our firm. Continuity ensures an orderly, efficient, and less disruptive audit experience by competent professionals. Since we cannot guarantee staff will remain with us, principal supervisory and management staff, including engagement partners, managers, other supervisory staff, and specialists, may be changed if those personnel leave the firm or are promoted.

In summary, we want to emphasize the credentials of the above professionals who will be directly responsible for the quality of service the District will receive. Additionally, our audit team has another attribute that is very important, even though it is intangible -- the professionals assigned to the District's audit have worked together as a multi-disciplined team, thus ensuring a smooth, efficient and effective audit. We are committed to allocating the necessary resources to ensure that we provide continuity of personnel throughout the term of our relationship with the District.

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Partner, supervisory and staff qualifications and experience

Continuing professional education

All professionals at our firm participate in continuing professional education (CPE) programs which are sponsored by various organizations including the Government Finance Officers Association, the American Institute of Certified Public Accountants, the California State Society of Certified Public Accountants, the California Society of Municipal Finance Officers, and the Association of Government Accountants. Participation in these classes helps us to ensure that our clients are receiving the best trained and proficient government auditors and accountants available. In addition, we provide in-house training taught by our partners and senior level staff using published resources.

In accordance with our Firm's Quality Control document and *Government Auditing Standards (GAS)*, all staff members who work on audits subject to GAS are required to complete CPE in accordance GAS standards.

Assigned personnel

It is our goal to provide the District with capable, competent, and personable individuals who offer an extensive background, not only in governmental accounting and auditing, but also in general business practices. We offer practical solutions, as well as provide technical support. This enables you to stay at the forefront of governmental accounting and provides you with the support you need in dealing with the complex issues confronting governments such as yours.

In addition, our engagement team has the managerial and supervisory experience to provide the District with a comprehensive audit of the highest quality, while still focusing on personal service. The following individuals will be assigned to the engagement for the entire contract period:

Scott Manno, CPA, Audit Partner – Engagement Partner

Mr. Scott Manno, CPA, is a municipal audit partner with the firm and will be the engagement partner. Mr. Manno has been in public accounting for 16 years serving local governments such as yours. As the engagement partner, he will be responsible for overall engagement quality, as well as ensuring that the engagement is performed in the most effective and efficient manner. He will review all work-papers prepared during the engagement, in addition to all required reports.

Mr. Manno has assisted the following cities in their endeavors to obtain the CSMFO and/or GFOA awards for outstanding financial reporting: Town of Yucca Valley, Elsinore Valley Municipal Water District, Rincon del Diablo Municipal Water District, City of Lake Elsinore, City of Ontario, the Ventura Regional Sanitary District, the City of Norco, Vista Irrigation District, and the City of Twentynine Palms. From 1997-2000, Mr. Manno served as a technical reviewer under the CSMFO award program.

Mr. Manno has served as a volunteer on the California Special Districts Association Audit Committee since 2010. In addition, Mr. Manno is a reviewer for the national GFOA award program.

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Partner, supervisory and staff qualifications and experience (continued)

Terry Shea, CPA, Quality Control Partner

Mr. Terry Shea, CPA, will be the Quality Control Partner. Mr. Shea has over 30 years of practical, governmental accounting, and auditing experience. He will be responsible for overall engagement quality and will review all required reports. Mr. Shea provides real world experience to all of our governmental engagements. He has gained this experience by serving as interim/contract finance director for several cities over the years. He served as Interim Finance Director for the City of Perris from July 1998 to October 2001. He currently serves as the Contract Finance Director for two Riverside County cities.

Both Mr. Manno and Mr. Shea are working partners and will be actively and continually involved in all aspects of the engagement.

Brad A. Welebir, CPA, MBA, Manager

Mr. Brad A. Welebir, CPA, is a manager with the firm. He is licensed to practice as a certified public accountant in the State of California. Mr. Welebir has over eight years of public accounting experience. He has provided accounting, auditing, and consulting services for municipalities, special districts, water agencies, and various nonprofit organizations. He will be responsible for planning the audit, supervising the staff assigned to the engagement, and performing reviews of all work-papers prepared for the engagement. In addition, he will also be responsible for the preparation of any required reports.

Genivive Schwarzkopf, CPA, Senior Accountant

Ms. Schwarzkopf, CPA, is a senior accountant with the firm. She has three years of experience in providing accounting and auditing services for municipalities, special districts, and redevelopment agencies. As a senior accountant, she will be responsible for examining general ledger accounts, verifying revenues and expenditures, preparing work-papers, supervising staff accountants, and assisting in the preparation of the financial statements and any other required reports.

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Similar engagements

Similar engagements

1. *Entity:* **WESTERN MUNICIPAL WATER DISTRICT**
 Address: 14205 Meridian Parkway, Riverside, CA 92518
 Scope of work: Financial Audit/CAFR/Single Audit
 Date: Year ending June 30, 2012
 Contact person: Ms. Veronica Zheng, Finance & Budget Reporting
 Supervisor, (951) 571-7100

2. *Entity:* **CRESTLINE- LAKE ARROWHEAD WATER AGENCY**
 Address: PO Box 3880, Crestline, CA 92325
 Scope of work: Financial Audit
 Date: Years ending June 30, 1996 through 2012
 Contact person: Ms. Roxanne Holmes, General Manager, (909) 338-1779

3. *Entity:* **RUNNING SPRINGS WATER DISTRICT**
 Address: PO Box 2206, Running Springs, CA 92382
 Scope of work: Financial Audit/Financial consultant for 2011 and beyond
 Date: Years ending June 30, 1995 through 2011
 Contact person: Mrs. Joan Eaton, Administration Supervisor,
 (909) 867-2766

4. *Entity:* **VISTA IRRIGATION DISTRICT**
 Address: 1391 Engineer Street, Vista, CA 92770
 Scope of work: Financial Audit/CAFR
 Date: Years ending June 30, 2012
 Contact person: Mrs. Marlene Kelleher, Accounting Manager
 (760) 597-3100

5. *Entity:* **CRESTLINE VILLAGE WATER DISTRICT**
 Address: PO Box 3347, Crestline, CA 92325
 Scope of work: Financial Audit
 Date: Years ending June 30, 2008 through 2012
 Contact person: Mr. Karl Drew, General Manager, (909) 338-1727

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Specific audit strategy (audit approach)

Specific audit strategy

The following is a summary of the audit team's approach for the Nipomo Community Services District engagement. The audit will be divided into the following phases:

Interim phase – planning, pre-audit administration and internal control testing:

During this phase of the audit, our principal objectives will be as follows:

- ✓ Discuss the dates of the interim and year-end fieldwork.
- ✓ Perform risk assessment procedures by completing the following procedures:
 - Gather information about the District and its control environment(s),
 - Evaluate the design and effectiveness of the District's internal controls and determine whether they have been implemented,
 - Perform walkthroughs of all significant transaction classes,
 - Perform tests of controls, if applicable and
- ✓ Perform single audit testing procedures, if applicable.

In order to achieve the desired objectives of this phase of the audit, we will:

- Meet with the District's staff in order to determine convenient dates for the District in which we can begin our audit and to discuss the assistance to be provided by them.
- Review and evaluate the District's accounting and reporting processes by reviewing the prior year audit work-papers, any District prepared documents such as budgets, in-house financial reports, policies and procedures manuals, minutes of board meetings, etc. and by using various analytical procedures. Analytical procedures will enhance our understanding of the District and will help us identify areas that may need further assessment and additional testing.
- Review and retain copies of any pertinent local, state, and federal statutes, regulations, or charters that apply to the District. We will also review and retain copies of any agreements or contractual obligations (e.g., bond and grant documents, lease agreements, contracts for deposit of monies, revenue agreements, etc).
- Evaluate the design of controls that are relevant to the audit by obtaining a thorough understanding of the District's internal controls over financial reporting and compliance by documenting key internal control components, utilizing questionnaires, walkthroughs, inquiring of the District's personnel, and observing and reviewing of key supporting documentation (a more thorough explanation of this process is discussed later in the technical proposal: understanding of internal control).
- Hold brainstorming sessions with engagement team members to discuss the susceptibility of the District's financial statements to material misstatement and fraud.
- Review and analyze supporting data and determine what reliance will be placed on internal controls and assess control risk.

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Specific audit strategy (audit approach) (continued)

- Test controls, if control risk is assessed below the maximum, by selecting a sample of transactions within the audit area being tested and reviewing supporting documentation, evaluating the completeness of the documentation tested, as well as the adequacy of support and approvals as they appear on the support.
- Document and review with management any findings noted during the testing of internal controls and provide a preliminary management letter that will include our recommendations for improving any weaknesses in operations noted during our internal control analysis and tests of controls. The letter will also include suggestions for improving the efficiency of the District's operations.

Year-end phase I – substantive testing:

During this phase of the audit, our principal objectives will be as follows:

- ✓ Assess the risk of material misstatement at the financial statement level and specific assertions.
- ✓ Design overall responses to assessed risks and further audit procedures.
- ✓ Perform substantive tests as needed and complete the audit.
- ✓ Evaluate audit findings, if applicable.

In order to achieve the desired objectives of this phase of the audit, we will:

- Determine whether our testing supports the assessed level of risk initially assigned at the financial statement level and at the assertion level.
- Identify significant risks.
- Develop a detailed audit plan.
- Design substantive tests of balances, designed and modified specifically for the District's operations and assessed level of risk. Substantive procedures could, depending on our risk assessment, consist of the following:
 - Testing of cash and investment reconciliations
 - Testing GASB 40 disclosures
 - Perform subsequent receipt testing for significant receivables
 - Determine if receivables are valued properly and perform tests of balances in conjunction with the testing of revenues
 - Test significant inventory accounts
 - Test additions and deletions to capital assets, including CIP accounts
 - Perform search for unrecorded liabilities
 - Test significant liability and accrued liability accounts
 - Review the valuation of claims payable balances
 - Test revenues through either analytical procedures and/or detailed testing
 - Test expenses through either analytical procedures and/or detailed testing
 - Test net asset classifications

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Specific audit strategy (audit approach) (continued)

- Review subsequent events
- Read minutes of board meetings
- Test for compliance with the District's investment policy
- Test for significant commitments to be disclosed in the financial statements
- Confirm with legal counsel any significant litigation
- Review significant employee contracts
- Ensure financial statements meet GFOA requirements for award

The above list is not all-inclusive. After our detailed risk assessment procedures, we will determine which procedures to perform relative to the audit. All of our audits are customized to the client helping to ensure a complete, effective, and efficient audit.

Year-end phase II – reporting/audit conclusion:

During this phase of the audit, our principal objectives will be as follows:

- ✓ Evaluate whether financial statements, taken as a whole, are free from material misstatement.
- ✓ Form an opinion and issue the audit report.

In order to achieve the desired objectives of this phase of the audit, we will:

- Determine whether, based on our substantive testing and other procedures, the financial statements, taken as a whole, are free of material misstatement. This will provide the basis for our opinion.
- Review all audit work-papers by the engagement partner and manager to ensure that the audit was performed in accordance with the required standards (GAAS, GAGAAS, etc.).
- Prepare drafts of all required reports by the agreed upon dates.
- Conduct an independent review of financial statements draft by firm's managing partner.
- Issue all reports by agreed upon date.

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Specific audit strategy (audit approach) (continued)

Sample sizes

Our sample sizes will be determined in accordance with the AICPA *Audit and Accounting Guide, Audit Sampling*. Our methods are designed to provide the most audit coverage without expending excess time. Our sample sizes will depend upon our preliminary assessment of control risk, as well as our planned substantive testing and analytical procedures.

Computer technology in the audit

Our firm has adopted a paperless audit approach. Using our engagement software, all team members are linked to each other using a local router which enables them to share information at an almost real time speed. In addition, once your trial balances are entered into our software (your financial statements as well), we are able to observe your statements in the field allowing us to notice any variances and deal with them at your office. With this in mind, we would prefer all audit information in an electronic format, particularly trial balances and general ledgers. If electronic formatting is not available, all audit teams have laptops, portable scanners, and printers while on location at the clients'. In addition, we can access our accounting and auditing resources through either a wireless or wired internet connection.

Analytical procedures

We will utilize analytical review procedures throughout our audit of the District. During the *interim* phase of our audit, we will compare current and prior year unadjusted balances to determine areas that may need additional analysis; we will also compare current year actual amounts to the District's annual budget. During the *final* phase of our audit, we will perform procedures similar to those mentioned above as well as compare certain financial ratios for current and prior years. We will also conduct certain "reasonableness" tests. Finally, after we have completed our fieldwork, we will compare current and prior year audited balances, keeping in mind expected relationships obtained from our knowledge of the District and various other entities.

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Specific audit strategy (audit approach) (continued)

Approach in determining applicable laws and regulations

As governmental auditors, we realize the importance of laws and regulations in planning an audit of a local government agency. As part of our audit process, our audit team will obtain an understanding of the laws that will have a direct and material effect on the District's financial statements. In determining which laws and regulations are applicable to the District's financial statement audit; we will consult the following sources:

- ◆ AICPA Audit and Accounting Guide, *Audits of State and Local Governments*
- ◆ California Code of Regulations *Minimum Audit Requirements and Reporting Guidelines for Special Districts*
- ◆ State of California *Water Code*
- ◆ U. S. Government Accountability Office's *Government Auditing Standards* (The Yellow Book), 2011 Revision
- ◆ Applicable contracts/grants of the Nipomo Community Services District
- ◆ The Single Audit Act Amendments of 1996
- ◆ Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*
- ◆ OMB Circular A-87, *Cost Principles for State and Local Governments*
- ◆ OMB's Circular A-133, *Compliance Supplement*

After consulting the applicable sources, we will design our audit to provide reasonable assurance of detecting material instances of noncompliance.

Approach in drawing samples for compliance testing

Our approach to be taken in drawing audit samples for purposes of tests of compliance will depend on the number of transactions, the amounts of financial assistance provided (as applicable) and the District's internal controls over its respective programs. We will select samples that will provide sufficient evidence of the District's compliance with the laws and regulations that will have a material effect on compliance with laws and regulations.

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Specific audit strategy (audit approach) (continued)

Understanding of internal control

Our approach to obtaining an understanding of the District's internal control over financial reporting will be performed in accordance with professional standards as promulgated by the American Institute of Certified Public Accountants -- our understanding will include the *Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring*. Our approach is as follows:

Control Environment: Through inquiry of the District's personnel, prompted by questionnaires, personal knowledge, and review of the minutes of the District board meetings, we will obtain an understanding of management's and the District board's attitudes, awareness and actions concerning the control environment, focusing on the substance of the controls rather than their form.

Risk Assessment: Again, through inquiry of the District's personnel and the use of questionnaires, we will obtain sufficient knowledge of the District's risk assessment process to understand how management considers risks relevant to financial reporting objectives and decides upon actions to address those risks. This will include understanding how management identifies risks, estimates the significance of these risks, assesses the likelihood of their occurrence, and relates them to financial reporting.

Control Activities: Certain procedures will be documented during our analysis of the control environment and the accounting system. However, many specific control procedures will still need to be documented (and walk-through(s) performed) that will focus primarily on the District's significant transaction cycles. As mentioned above, we will test the District's control procedures on which we intend to rely on for safeguarding assets from unauthorized use or disposition and detecting/preventing unauthorized transactions. Any flow charts, organizational charts, and any other manuals, programs and financial and management information systems will be analyzed during this process.

Information and Communication: Again, through inquiry of the District's personnel, we will identify the major types of transactions (and significant transaction classes) processed by the District. Next, we will become familiar with the treatment of those transactions, including how the transactions are initiated, the related accounting records and the manner of processing the transactions. Finally, we will obtain an understanding of the District's financial reporting process used to prepare financial reports, including the approaches used to make accounting estimates and disclosures.

Monitoring: With the use of questionnaires we will obtain sufficient knowledge of the major types of activities the District uses to monitor internal control over financial reporting. We will also determine how those activities are used to initiate corrective actions.

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Resumes of key engagement personnel

Scott W. Manno, Audit Partner – Engagement Partner Certified Public Accountant

Professional Experience

Mr. Manno began his career with Thomas, Bigbie and Smith in 1995. He spent six years with the firm primarily working on audits of municipalities, special districts and redevelopment agencies as well as various non-profit organizations. He joined Rogers, Anderson, Malody & Scott, LLP in July 2001.

Education

Bachelor of Science degree from California State University, San Bernardino
Certified Public Accountant – State of California

Related Professional Experience

Governmental agencies that Mr. Manno has served include the following (*includes enterprise fund accounting):

Ventura Regional Sanitation District	Goleta Sanitary District
Elsinore Valley Municipal Water District	Western Municipal Water District
Vista Irrigation District	Rincon del Diablo Municipal Water District
East Valley Water District	Crestline Village Water District
Big Bear Area Regional Wastewater Agency	Idyllwild Water District
Helix Water District	San Geronio Pass Water Agency
San Bernardino Valley Municipal Water District	Running Springs Water District
City of Lake Elsinore*	City of Goleta

Continuing Professional Education

Mr. Manno has completed approximately 156 hours of continuing professional education courses over the past three years of which the following select courses are relevant to this engagement:

- ◆ Texas Tech University, *Governmental Accounting, Reporting and Auditing*
- ◆ American Institute of Certified Public Accountants, *Governmental Accounting and Reporting*
- ◆ American Institute of Certified Public Accountants, *Frequent Frauds Found in Government*
- ◆ Thomson Reuters, *Audits of State and Local Governments*

Professional Affiliations

Mr. Manno is a member of the following organizations:

- ◆ American Institute of Certified Public Accountants (AICPA)
- ◆ California Society of Certified Public Accountants (CSCPA)
- ◆ Association of Certified Fraud Examiners (ACFE)
- ◆ Association of Government Accountants (AGA)
- ◆ Government Finance Officers Association (GFOA)
- ◆ California Society of Municipal Finance Officers (CSMFO)

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Resumes of key engagement personnel (continued)

Terry P. Shea, Quality Control Partner Certified Public Accountant

Professional Experience

Mr. Shea began his career with Thomas, Byrne and Smith in 1981. He spent six years with the firm primarily working on audits of municipalities, special districts, redevelopment and other governmental agencies. He joined our firm in 1987 and has completed governmental audits including municipalities and has provided financial consulting services for various cities.

Education

Bachelor of Arts degree from California State University, Fullerton
Certified Public Accountant – State of California

Related Professional Experience

Governmental agencies that Mr. Shea has served include the following (*includes enterprise fund accounting):

City of El Cajon*	City of Fontana*	City of Goleta
City of Grand Terrace*	City of Loma Linda	Joshua Basin Water District
City of Twentynine Palms	City of Palm Desert*	City of Riverside*
City of Corona*	City of San Jacinto*	Yucaipa Valley Water District
City of Norco*	City of San Bernardino*	Town of Yucca Valley
City of Indio*	City of San Bernardino EDA	City of Indian Wells
Ventura Regional Sanitation District	Crestline-Lake Arrowhead Water Agency	

Mr. Shea served as the Interim Finance Director for the City of Perris from July 1998 to October 2001. He currently serves as the Contract Finance Director for two Riverside County cities.

Continuing Professional Education

Mr. Shea has completed approximately 80 hours of continuing professional education courses in the past three years, of which, the following select courses are relevant to this engagement:

- ◆ Thomson Reuters, *Audits of State and Local Governments*
- ◆ American Institute of Certified Public Accountants, *Foundations in Governmental Accounting*
- ◆ California CPA Education Foundation, *Governmental Auditing Skills*
- ◆ American Institute of Certified Public Accountants, *Governmental and Not-for Profit Conference*

Professional Affiliations

Mr. Shea is a member of the following professional organizations:

- ◆ American Institute of Certified Public Accountants (AICPA)
- ◆ California Society of Certified Public Accountants (CSCPA)
- ◆ Government Finance Officers Association (GFOA)
- ◆ California Society of Municipal Finance Officers (CSMFO)

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Resumes of key engagement personnel (continued)

Brad A. Welebir, MBA, Audit Manager Certified Public Accountant

Professional Experience

Mr. Welebir joined Rogers, Anderson, Malody & Scott, LLP in January 2004. He works primarily on audits of governmental agencies, small to mid-sized businesses, and nonprofit organizations. Prior to joining our firm, he began his career with Sam's Club, where he was the operations manager. He then worked for La Sierra Academy as an accountant.

Education

Masters of Business Administration – Accounting Emphasis from California State University, Fullerton in June 2003
Bachelor of Arts in Business Administration from La Sierra University in 1996
Certified Public Accountant – State of California

Related Professional Experience

Organizations that Mr. Welebir has served include the following:

- Vista Irrigation District
- County of San Bernardino – Auditor/Controller Special District Audits
- Crestline Village Water District
- Lake Elsinore & San Jacinto Watersheds Authority
- San Bernardino Municipal Water District
- Running Springs Water District
- Santa Ana Watershed Project Authority
- West Valley Water District

Continuing Professional Education

Mr. Welebir has completed 81 hours of continuing professional education courses in the past two years of which the following select courses are relevant to this engagement:

- ◆ Thomson Reuters, *Audits of State and Local Governments*
- ◆ American Institute of Certified Public Accountants, *Foundations in Governmental Accounting*
- ◆ California Society of CPAs Education Foundation, *Governmental Accounting and auditing Update*
- ◆ American Institute of Certified Public Accountants, *Applying A-133 to Nonprofit and Governmental Organizations*

Professional Affiliations

Mr. Welebir is a member of the following professional organizations:

- ◆ American Institute of Certified Public Accountants (AICPA)
- ◆ California Society of Certified Public Accountants (CSCPA)

NIPOMO COMMUNITY SERVICES DISTRICT

PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

Resumes of key engagement personnel (continued)

Genivive Schwarzkopf, Senior Accountant Certified Public Accountant

Professional Experience

Ms. Schwarzkopf joined Rogers, Anderson, Malody & Scott, LLP in January 2009. She has been primarily working on audits of municipalities, special districts, and other engagements for various non-profit organizations.

Education

Bachelor of Science degree from University of the City of Manila, Philippines
Certified Public Accountant – State of California

Related Professional Experience

Governmental agencies that Ms. Schwarzkopf has served include the following (*includes enterprise fund accounting):

Ventura Regional Sanitation District*	San Bernardino County Special Districts*
Ventura County Regional Sanitation District	City of Lemon Grove*
Barstow Fire Protection District	City of Grand Terrace*
Idyllwild Fire Protection District	City of La Verne*
Affordable Living Communities Mobile Home Parks	Valley of Enchantment Mutual Water Company*

Continuing Professional Education

Ms. Schwarzkopf has completed approximately 45 hours of continuing professional education courses over the past two years of which the following select courses are relevant to this engagement:

- ◆ Government Finance Officers Association, *Advanced Governmental Accounting*
- ◆ California Society of Municipal Finance Officers, *Implementing GASB 54 Fund Balance Reporting*
- ◆ American Institute of Certified Public Accountants, *Applying A-133 to Nonprofit and Governmental Organizations*
- ◆ Thomson Reuters, *Audits of State and Local Governments*
- ◆ Thomson Reuters, *Evaluating and Testing Internal Controls*

Professional Affiliations

Ms. Schwarzkopf is a member of the following organizations:

- ◆ American Institute of Certified Public Accountants (AICPA)
- ◆ California Society of Certified Public Accountants (CSCPA)

FOUNDERS

Lawrence S. Timpson, CPA (1891 - 1974)
LeVerne W. Garcia, CPA (1904 - 1983)

PARTNERS

Dennis S. Kaneshiro, CPA
Llaine Lee Kawasaki, CPA
William E. Moy, CPA

FIRM ADMINISTRATOR

Liz Davis

System Review Report

May 31, 2012

To the Owners of
Rogers, Anderson, Malody & Scott, LLP
and the Peer Review Committee of the
California Society of Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of **Rogers, Anderson, Malody & Scott, LLP** (the firm) in effect for the year ended November 30, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a *System Review* are described in the standards at www.aicpa.org/prsummary.

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

In our opinion, the system of quality control for the accounting and auditing practice of **Rogers, Anderson, Malody & Scott, LLP** in effect for the year ended November 30, 2011, 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*. **Rogers, Anderson, Malody & Scott, LLP** has received a peer review rating of *pass*.

Timpson Garcia, LLP

Attached is a partial listing of entities in which our firm or members of our firm have served over the years (*current client):

Special Districts:

Rincon del Diablo Municipal Water District
 Valley Water District*
 Helendale Community Services District*
 Mojave Water Agency
 Rossmoor Community Services District*
 Elsinore Valley Municipal Water District
 San Bernardino County Special Districts
 audits (over 100 districts)
 Pine Cove Water District*
 Victor Valley Wastewater Reclamation
 Authority
 Twentynine Palms Water District
 Valley Sanitary District
 Ventura Regional Sanitation District*
 Citrus Pest Control District
 Coachella Valley Mosquito and Vector
 Control District
 Coachella Valley Public Cemetery District
 Goleta Sanitary District
 Inland Empire Resource Conservation
 District*
 Big Bear Area Wastewater Agency
 Saticoy Sanitary District*
 Triunfo Sanitary District
 East Valley Water District
 San Bernardino Valley Municipal Water
 District*
 San Geronio Pass Water Agency
 San Bernardino Water Conservation
 District*
 Crestline-Lake Arrowhead Water Agency*
 Crestline Village Water District*
 Running Springs Water District*
 Joshua Basin Water District
 Yucaipa Valley Water District
 Inland Empire Utilities Agency
 Barstow Fire Protection District*
 Rim of the World Recreation and Park
 District*
 Hi-Desert Water Agency
 Jurupa Community Services District
 Vista Irrigation District*
 Western Municipal Water District*
 Idyllwild Water District*
 Helix Water District*

Cities and Redevelopment Agency's:

City of San Jacinto*
 San Jacinto Redevelopment Agency*
 City of Eastvale*
 City of Goleta*
 Goleta Redevelopment Agency*
 City of Canyon Lake*
 City of Twentynine Palms*
 City of El Cajon*
 El Cajon Redevelopment Agency*
 City of Dana Point*
 City of Fillmore*
 Fillmore Redevelopment Agency*
 City of Grand Terrace*
 Grand Terrace Redevelopment Agency*
 City of Calimesa
 Calimesa Redevelopment Agency
 City of Escondido
 City of Lake Elsinore
 Lake Elsinore Redevelopment Agency
 Lake Elsinore Public Financing Authority
 Lake Elsinore Recreation Authority
 City of Norco*
 Norco Redevelopment Agency*
 City of San Bernardino*
 City of San Bernardino Economic
 Development
 Agency*
 City of Lemon Grove*
 Lemon Grove Community Development
 Agency*
 Town of Yucca Valley*
 Yucca Valley Redevelopment Agency*
 City of Banning
 Banning Redevelopment Agency
 City of Blythe
 Blythe Financing Authority
 Blythe Redevelopment Agency
 City of Ontario
 Ontario Redevelopment Agency
 Ontario Redevelopment Financing Authority
 City of Perris
 Perris Redevelopment Agency
 City of Corona
 Corona Redevelopment Agency
 City of Indio
 Indio Redevelopment Agency

Cities and Redevelopment Agency's (continued):

City of Indian Wells
City of Fontana
Fontana Redevelopment Agency
City of Loma Linda
Loma Linda Redevelopment Agency
City of Palm Desert
Palm Desert Redevelopment Agency
City of Riverside
Riverside County Economic Development
Agency
San Bernardino International Airport
Authority*
Inland Valley Development Agency*
Heartland Communications Facility Authority*
City of Colton
Colton Redevelopment Agency
City of La Verne*
City of Rosemead*
City of San Juan Capistrano*
City of Chino*
City of Capitola*

NIPOMO COMMUNITY SERVICES DISTRICTCost proposal
Summary

	Three year proposal		
	Fiscal year ended June 30,		
	2013	2014	2015
District audit	\$ 23,800	\$ 24,350	\$ 24,750
Single audit, <i>per major program</i> , if applicable	<u>3,585</u>	<u>3,675</u>	<u>3,765</u>
Total all-inclusive maximum price	<u>\$ 27,385</u>	<u>\$ 28,025</u>	<u>\$ 28,515</u>

NIPOMO COMMUNITY SERVICES DISTRICT

Cost proposal detail
For the year ended June 30, 2013

	<u>Quoted Hourly Rates</u>	<u>Hours</u>	<u>Total</u>
Partners	\$ 235	20	\$ 4,700
Manager	165	25	4,125
Senior	115	40	4,600
Staff	75	<u>125</u>	<u>9,375</u>
		<u>210</u>	
Total for services described in RFP			22,800
Out-of-pocket expenses			-
Meals and lodging			750
Transportation			250
Other (specify): _____			<u>-</u>
Total all-inclusive maximum price fiscal year 2012/13 audit			<u>\$ 23,800</u>

NIPOMO COMMUNITY SERVICES DISTRICT

Cost proposal detail
For the year ended June 30, 2014

	<u>Quoted Hourly Rates</u>	<u>Hours</u>	<u>Total</u>
Partners	\$ 240	20	\$ 4,800
Manager	165	25	4,125
Senior	125	40	5,000
Staff	75	<u>125</u>	<u>9,375</u>
		<u>210</u>	
Total for services described in RFP			23,300
Out-of-pocket expenses			-
Meals and lodging			775
Transportation			275
Other (specify): _____			<u>-</u>
Total all-inclusive maximum price fiscal year 2013/14 audit			<u>\$ 24,350</u>

NIPOMO COMMUNITY SERVICES DISTRICT

Cost proposal detail
For the year ended June 30, 2015

	<u>Quoted Hourly Rates</u>	<u>Hours</u>	<u>Total</u>
Partners	\$ 245	20	\$ 4,900
Manager	175	25	4,375
Senior	125	40	5,000
Staff	<u>75</u>	<u>125</u>	<u>9,375</u>
		<u>210</u>	
Total for services described in RFP			23,650
Out-of-pocket expenses			-
Meals and lodging			800
Transportation			300
Other (specify): _____			<u>-</u>
Total all-inclusive maximum price fiscal year 2014/15 audit			<u>\$ 24,750</u>

TO: MICHAEL S. LEBRUN *MSL*
GENERAL MANAGER

FROM: LISA BOGNUDA *LB*
FINANCE DIRECTOR

DATE: JANUARY 14, 2013



ANNUAL REVIEW OF INVESTMENT POLICY

ITEM

Annual Review of Investment Policy

BACKGROUND

The California Government Code Section 53646 (2) requires local government entities adopt an annual investment policy.

GC§ 53646(2) reads as follows:

In the case of any other local agency, the treasurer or chief fiscal officer of the local agency shall annually render to the legislative body of that local agency and any oversight committee of that local agency a statement of investment policy, which the legislative body of the local agency shall consider at a public meeting. Any change in the policy shall also be considered by the legislative body of the local agency at a public meeting.

Attached for your review is the Draft 2013 Investment Policy.

No changes and/or modifications have been made to this policy since the adoption of the 2012 Investment Policy on February 8, 2012.

RECOMMENDATION

Review Draft 2013 Investment Policy and make recommendation to the Board of Directors.

ATTACHMENTS

- Draft 2013 Investment Policy

DRAFT

YEAR 2013 INVESTMENT POLICY
NIPOMO COMMUNITY SERVICES DISTRICT

1. INTRODUCTION

This policy establishes the standards under which the District's Finance Officer will conduct business with financial institutions with regard to the investment process.

2. PURPOSE AND SCOPE

This investment policy is intended to outline the guidelines and practices to be used in effectively managing the District's available cash and investment portfolio. It applies to all cash and investment assets of the District except those funds maintained in deferred compensation accounts for employees, and proceeds of debt issuance that shall be invested in accordance with the permitted investment provisions of their specific bond indentures. District monies not required for immediate expenditure will be invested in compliance with governing provisions of law (Government Code Sections 53600 et seq.) and this policy. Investments shall be made in judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent investor" standard (California Government Code Section 53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers (Finance Officer) acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

3. FINANCE OFFICER

The Board of Directors appoints the General Manager as the District Finance Officer and Treasurer. The District's Assistant General Manager shall serve as the District's Finance Officer and Treasurer in the absence of the District's General Manager.

4. SCOPE

The District investment portfolio shall consist of money held in a sinking fund of, or surplus money in, the District's treasury not required for the immediate necessities of the District. The District's investment portfolio shall be invested in accordance with this policy.

5. OBJECTIVES

The primary objectives are safety, liquidity, yield, and compliance.

A. SAFETY

The investment portfolio shall be managed in a manner that ensures the preservation of capital. The objective is to minimize credit risk and interest rate risk.

DRAFT

YEAR 2013 INVESTMENT POLICY
NIPOMO COMMUNITY SERVICES DISTRICT

B. LIQUIDITY

The investment portfolio shall remain sufficiently liquid to meet all operating requirements. This shall be accomplished by structuring the investment portfolio so that investments mature in advance of with cash needs.

C. YIELD

Yield shall be a consideration only after the requirements of safety and liquidity have been met.

D. COMPLIANCE

This Investment Policy is written to be in compliance with California and Federal law.

6. STANDARDS OF CARE

A. PRUDENCE

The Finance Officer will manage the portfolio pursuant to the "Prudent Investor Standard." When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds in the District's investment portfolio, the Finance Officer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the District.

B. DISCLOSURES

Finance Officer shall disclose any material interest in financial institutions with which he/she conducts the District business.

7. INVESTMENTS AUTHORITY

A. PERMITTED INVESTMENTS

The District Finance Officer is authorized to invest in the following institutions:

1. County pooled funds (California Government Code § 61730)
2. The Local Agency Investment Fund created by the California State Treasury (California Government Code § 16429.1)
3. One or more FDIC insured Banks and/or Savings and Loan Associations that are designated as District depositories by resolution of the Board of Directors (California Government Code § 61053).
4. Such other financial institutions or securities that may be designated by the Board of Directors from time to time in compliance with California and Federal law.

B. PROHIBITED INVESTMENTS

The District's Finance Officer shall not invest in:

1. Inverse floaters, range notes or interest only strips that are derived from a pool of mortgages.

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2. Any security that could result in a zero interest accrual if held to maturity.
3. A state or federal credit union, if a member of the District's Board of Directors or an administrative officer also serves on the Board of Directors, or any committee appointed by the Board of Directors, or the credit committee or supervisory committee, of the state or federal credit union.

C. DIVERSIFIED INVESTMENTS

Investments, other than investments referenced in paragraphs **7-A** (1) and (2) above, will be diversified to avoid losses that may be associated with any one investment.

8. REPORTS

A. MONTHLY REPORT

Finance Officer/Treasurer shall make monthly reports to the Board of investments made or retired during the preceding month.

B. QUARTERLY REPORT

Finance Officer shall file a quarterly report that identifies the District's investments and their compliance with the District's Investment Policy. The quarterly report must be filed with the District's auditor and considered by the District's Board of Directors within thirty (30) days after the end of each quarter (i.e., by May 1, August 1, November 1, and February 1) (California Government Code § 53646). Required elements of the quarterly report are as follows:

1. Type of Investment
2. Institution
3. Date of Maturity (if applicable)
4. Amount of deposit or cost of the security
5. Current market value of securities with maturity in excess of twelve months (if applicable)
6. Rate of Interest
7. Statement relating the report to the Statement of Investment Policy
8. Statement of the District's ability to meet cash flow requirements for the next six months.
9. Accrued Interest (if applicable)

C. ANNUAL REPORT

Prior to February 1, of each year, the Finance Officer shall file and submit an annual report to the District's auditor and Board of Directors which will contain the same information required in the quarterly report.

The annual report will include a recommendation to the Board of Directors to either:

1. Readopt the District's then current annual Investment Policy; or
2. Amend the District's then current Investment Policy.

D. LIMITED QUARTERLY REPORT

If the District has placed all of its investments in the Local Agency Investment Fund (LAIF), created by California Government Code § 16429.1, or in Federal Deposit Insurance Corporation, insured accounts in a bank or savings and loan association, in a County investment pool, or any

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combination of these, the Finance Officer may submit to the Board of Directors, and the auditor of the District the most recent statement or statements received by the District from these institutions in lieu of the information required in paragraph 8.B, above. This special reporting policy does not relieve the Finance Officer of the obligation to prepare an annual investment report as identified in paragraph 8.C, above.

TO: MICHAEL S. LEBRUN *MSL*
 GENERAL MANAGER

FROM: LISA BOGNUDA *LSB*
 FINANCE DIRECTOR

DATE: JANUARY 14, 2013



**PROPOSED SCHEDULE FOR PREPARATION OF THE
 2013-2014 FISCAL YEAR BUDGET**

ITEM

Proposed schedule for preparation of the 2013-2014 Fiscal Year Budget

BACKGROUND

Below is a proposed schedule for the preparation of the 2013-2014 Fiscal Year Budget. The dates are subject to change, however, Staff plans to adhere to this schedule.

February 18	Capital Improvement Projects Budget, Utility Field and District Engineer submittals to Lisa
Week of March 4	Kick off meeting with Finance Committee to hear input
Week of March 25	Staff circulates draft Budget to Finance Committee
Week of April 8	Staff meets with Finance Committee and receives recommendations/changes/deletions
Week of April 29	Staff circulates draft Budget to entire Board of Directors based on Finance Committee recommendations
Week of May 13	Staff prepares for public notice of adoption for newspaper (publish on May 29 and June 5)
Week of May 13 or May 20	Study Session with Board of Directors
June 7	Staff circulates final draft budget based on recommendations received at Study Session
June 12	Public Hearing and Adoption

RECOMMENDATION

It is recommended that the Committee review the proposed schedule and recommend to the Board of Directors that a Study Session be held the week of May 13 or week of May 20 and the Public Hearing/Adoption be held on June 12.

ATTACHMENT

None