

PROFESSIONAL SERVICES CONTRACT WITH THE PUN GROUP, LLP FOR PROFESSIONAL AUDITING SERVICES

This contract is entered into and effective on _____, by and between the CITY OF STOCKTON, hereinafter referred to as "CITY," and THE PUN GROUP, LLP, hereinafter referred to as "FIRM"

Section 1 SCOPE OF SERVICES

Subject to the terms and conditions set forth in this Agreement, FIRM shall provide CITY the services described in Exhibit A, entitled "Scope of Services," attached to this Agreement and incorporated by reference. FIRM shall not be compensated for services outside the scope of services as set forth in Exhibit A unless, prior to the commencement of such services: (a) FIRM notifies CITY and CITY agrees that such services are outside of the scope of services to be performed; (b) FIRM estimates the additional compensation required for the additional services; and, (c) CITY, after notice, approves the additional services and amount of compensation.

Section 2 COMPENSATION

CITY shall pay FIRM for services rendered pursuant to this Agreement at the times and in the manner as set forth in Exhibit B, entitled "Cost Proposal," attached to this Agreement and incorporated by reference. Payments specified in Exhibit B shall be the only payments to be made to FIRM for services rendered pursuant to this Agreement unless, pursuant to Section 1 above, CITY approves additional compensation for additional services. Total compensation for services shall not exceed \$943,000 for services related to fiscal years ending 2016, 2017, and 2018, or \$1,620,000 for the combined five years including services related to fiscal years ending 2019 and 2020.

FIRM will submit an invoice to CITY upon conclusion of the "Planning Phase," "Interim Phase," "Year-End Phase," "Presentation and Acceptance of Final Reports," and "Additional Optional Services" as described and set forth in Exhibit A and Exhibit B for services completed. All invoices will be itemized to reflect the categories of employees performing the requested tasks, the billing rate for each employee, and the hours for services.

All invoices sent by FIRM to CITY shall be paid within thirty (30) days of receipt, provided supporting narrative and hours billed against the specific task allocations in the contract's scope of work are included and acceptable to the CITY.

Section 3 TERMS AND CONDITIONS OF AGREEMENT

1. Time for Commencement and Completion of Services: FIRM shall commence services on the date first set out above, and shall prosecute the services

related to fiscal years ending 2016, 2017, and 2018 to completion, unless the agreement is terminated, as provided for herein or modified by CITY and agreed to by FIRM. CITY will have the option of two (2) single extensions for services related to fiscal years ending 2019 and 2020.

2. Facilities and Property: CITY agrees to make its facilities accessible to FIRM as required for FIRM's performance of its services.

3. License, Permits, and Compliance with Law: Prior to performing any services for CITY, FIRM, if not already in possession of a valid City of Stockton business license shall obtain one at its own expense and maintain it for the duration of this Agreement. In addition, FIRM represents that prior to commencing any services under this Agreement, it shall obtain and maintain at its own expense during the life of this Agreement any other licenses, permits, qualifications, and approval required to practice its profession and perform the contract services and shall comply with any and all applicable local, state, and federal laws in performing the contract services.

4. Relationship of Parties, No Third-Party Beneficiaries: FIRM is an independent contractor under this Agreement. This Agreement gives no rights or benefits to anyone not named as a party to this Agreement, and there are no third party beneficiaries to this Agreement. In the exercise of rights and obligations under this Agreement, FIRM acts as an independent contractor and not as an agent or employee of CITY. CITY shall not control where and how services are performed. CITY shall not reimburse FIRM for business expenses or supplies and shall not provide FIRM with vacation, pension, insurance, or sick leave. FIRM shall provide FIRM'S own office, tools, and supplies and shall be free to engage in contracts with other persons or agencies, either public or private. FIRM shall not be entitled to any rights and benefits accorded or accruing to the City Council members, officers or employees of CITY, and FIRM expressly waives any and all claims to such right and benefits.

5. Subcontracts: FIRM may use the services of independent contractors to perform a portion of its obligations under this Agreement with prior approval by CITY. Independent contractors and subcontractors shall be provided with a copy of this Agreement and shall agree to be bound by its terms. FIRM shall be the responsible party with respect to all actions of its independent contractors and subcontractors, and shall obtain such insurance and indemnity provisions from contractors and subcontractors as FIRM shall determine to be necessary.

6. No Discrimination: In performing the services under this Agreement, FIRM shall not discriminate in the employment of its employees and the engagement of any subcontractors on the basis of race, religion, color, national origin, ancestry, disability, marital status, pregnancy, medical condition, gender, sexual orientation, or political opinions or affiliation or any other criteria prohibited by law.

7. Insurance Requirements: FIRM shall comply with the insurance requirements set forth in Exhibit C, attached to this Agreement and incorporated by reference. In addition, FIRM, in accordance with the provisions of Section 3700 of the California Labor Code, shall secure at its own expense and maintain during the life of this

Agreement, Workers' Compensation coverage for its employees as necessary to protect FIRM and its employees under the Workers' Compensation Insurance and Safety Act. Such insurance shall be in a standard form and shall relieve CITY of all responsibility for such claims and or liability. FIRM shall, prior to undertaking the work contemplated herein, supply CITY with a certificate of insurance evidencing that said insurance coverage is in full effect.

8. Indemnity and Hold Harmless: With the exception that this section shall in no event be construed to require indemnification by FIRM to a greater extent than permitted under the public policy of the State of California, FIRM shall, indemnify, protect, defend with counsel approved by CITY and at FIRM'S sole cost and expense, and hold harmless CITY, its Mayor, Council, officials, representatives, agents employees and volunteers from and against any and all claims, causes of action, liabilities, judgments, awards, losses, liens, claims, stop notices, damages, expenses, and costs (including without limitation attorneys' fees, expert and FIRM fees, and other expenses of litigation) of every nature, including, but not limited to, death or injury to persons, or damage to property, which arise out of or are in any way connected with the work performed, materials furnished, or services provided under this Agreement, or from any violation of any federal, state, or municipal law or ordinance, or CITY Policy, by FIRM or FIRM'S officers, agents, employees, volunteers or subcontractors. FIRM shall not be obligated to indemnify or defend CITY for claims finally determined by a court of law or arbitrator to arise from the active negligence or willful misconduct of the CITY. It is the intent of the Parties that this indemnity obligation is at least as broad as is permitted under California law. To the extent California Civil Code sections 2782, et seq., limit the defense or indemnity obligations of FIRM to CITY, the intent hereunder is to provide the maximum defense and indemnity obligations allowed by FIRM under the law. The indemnity set forth in this section shall not be limited by insurance requirements or by any other provision of this Agreement.

With the exception that this section shall in no event be construed to require indemnification, including the duty to defend, by FIRM to a greater extent than permitted under the public policy of the State of California, the parties agree that FIRM'S duty to defend CITY is immediate and arises upon the filing of any claim against the CITY for damages which arise out of or are in any way connected with the work performed, materials furnished, or services provided under this Agreement by FIRM or FIRM'S officers, agents, employees, volunteers or subcontractors. FIRM'S duties and obligations to defend the CITY shall apply regardless of whether or not the issue of the CITY'S liability, breach of this Agreement, or other obligation or fault has been determined. FIRM shall be immediately obligated to pay for CITY'S defense costs of the claim, including, but not limited to, court costs, attorney's fees and costs, expert FIRM and witness fees and costs, other witness fees, document reproduction costs, arbitration fees, and, if after final judgment an appeal is pursued, all of such costs for the appeal. At the conclusion of the claim, if there is any determination or finding of sole active negligence or willful misconduct on the part of the CITY, CITY will then reimburse FIRM for amounts paid in excess of FIRM'S proportionate share of responsibility for the damages within 30 days after FIRM provides CITY with copies of all bills and expenses incurred in the defense of the claim(s). It is agreed between the parties that this reimbursement provision assures FIRM is not obligated to defend or indemnify CITY in an amount greater than provided for under California law, including, without limitation, California Civil Code sections 2782, 2782.6, and 2782.8.

With the exception that this section shall in no event be construed to require indemnification by FIRM to a greater extent than permitted under the public policy of the State of California, and in addition to the other indemnity obligations in this Agreement, FIRM shall indemnify, defend, and hold harmless CITY its Mayor, Council, officials, representatives, agents employees and volunteers from and against all claims, losses, expenses, and costs including but not limited to attorneys' fees, arising out of any claim brought against the CITY by an employee, office, agent, or volunteer of FIRM, regardless of whether such claim may be covered by any applicable workers compensation insurance. FIRM'S indemnification obligation is not limited in any way by any limitation on the amount or type of damages, compensation, or benefits payable by or for the FIRM under workers' compensation acts, disability acts, or other employee benefit acts.

9. Standard of Performance: FIRM shall perform all services required pursuant to this Agreement in the manner and according to the standards observed by a competent practitioner of the profession. All services and/or products of whatever nature that FIRM delivers to CITY pursuant to this Agreement shall be prepared in a professional manner and conform to the standards of quality normally observed by a person practicing the profession of FIRM and its agents, employees, and subcontractors assigned to perform the services contemplated by this Agreement.

10. Ownership and Use of Documents and Electronic Media Deliverables: All completed reports and other data or documents provided or prepared by FIRM in accordance with this Agreement are the property of CITY, and may be used by CITY at its own risk.

11. Resolutions of Disputes, Forum, and Attorneys' Fees: The laws of the State of California shall govern the interpretation of and the resolution of disputes under this Agreement. Any dispute arising from this Agreement shall be adjudicated in the courts of San Joaquin County in the State of California. If any claim, at law or otherwise is made by either party to this Agreement, the prevailing party shall be entitled to its costs and reasonable attorneys' fees.

12. Termination: This Agreement shall continue until terminated as provided for herein. CITY may terminate this Agreement at any time by providing written notice to FIRM. FIRM may terminate this Agreement by providing thirty (30) days written notice to CITY. In the event CITY shall give such notice of termination, FIRM shall immediately cease rendering services pursuant to this Agreement.

In the event CITY shall terminate this Agreement: (a) CITY shall have full ownership and control of all writings which have been delivered by FIRM pursuant to this Agreement and all drafts of reports and writings which form the basis for any writing or report which would have been otherwise delivered to CITY pursuant to this Agreement; (b) CITY shall pay FIRM the reasonable value of services rendered by FIRM pursuant to this Agreement; provided, however, CITY shall not in any manner be liable for lost profits which might have been made by FIRM had FIRM completed the services required by this Agreement. In this regard, FIRM shall furnish the CITY such financial information as in the judgment of the CITY representative is necessary to determine the reasonable value of the services rendered by FIRM.

13. Notices: All notices, requests, demands and other communications hereunder shall be deemed given only if in writing signed by an authorized representative of the sender, and delivered by facsimile with a hard copy mailed first class, postage prepaid, or when sent by a courier or express services guaranteeing overnight delivery to the receiving party, and addressed to the respective party as follows:

To CITY: **Kurt Wilson, City Manager**
City of Stockton, Office of the City Manager
425 N. El Dorado Street
Stockton, CA 95202

To FIRM: **Kenneth H. Pun, CPA, CGMA**
The Pun Group, LLP
200 East Sandpoint Avenue, Suite 600
Santa Ana, CA 92707

14. Entire Agreement: This document, including all exhibits, contains the entire agreement between the parties and supersedes whatever oral or written understanding they may have had prior to the execution of this Agreement.

15. Severability: If any portion of this Agreement or its application to any person or circumstance shall be invalid or unenforceable to any extent, the remainder of this Agreement shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

16. Headings, Assignment and Waiver: The headings in this Agreement are inserted for convenience only and shall not constitute a part of it. Neither party to this Agreement shall assign its duties and obligations hereunder without the prior written consent of the other party. A waiver of any part or any provision of this Agreement, or a waiver of any breach of this Agreement, must be provided in writing and shall not be construed as a waiver of any other provision or any succeeding breach of the same or any other provisions herein.

17. Auditing: CITY reserves the right to periodically audit all charges made by FIRM to CITY for services under this Agreement. Upon request, FIRM agrees to furnish CITY, or a designated representative, with necessary information and assistance.

FIRM agrees that CITY or its delegate will have the right to review, obtain, and copy all records pertaining to the performance of this Agreement. FIRM agrees to provide CITY or its delegate with any relevant information requested and shall permit CITY or its delegate access to its premises, upon reasonable notice, during normal business hours for the purpose of interviewing employees and inspection and copying such books, records, accounts, and other material that may be relevant to a matter under investigation for the purpose of determining compliance with this requirement. FIRM

further agrees to maintain such records for a period of three (3) years after final payment under this Agreement.

18. Integration and Modification: This Agreement represents the entire integrated agreement between FIRM and CITY; supersedes all prior negotiations, representations, or agreements, either written or oral, between the parties; and may be amended only by written instrument signed by FIRM and CITY.

19. Authority: The undersigned hereby represent and warrant that they are authorized by the parties to execute this Agreement.

[illegible]

IN WITNESS WHEREOF, CITY and FIRM have executed this Agreement as of the date first above written.

CITY OF STOCKTON,
a municipal corporation

THE PUN GROUP, LLP

By _____
KURT WILSON
CITY MANAGER

By _____
KENNETH H. PUN
MANAGING PARTNER

ATTEST:

APPROVED AS TO FORM AND
CONTENT:

BONNIE PAIGE
CITY CLERK OF THE
CITY OF STOCKTON

JOHN M. LUEBBERKE
CITY ATTORNEY

CITY OF STOCKTON

Proposal to Perform Professional Auditing Services

SECTION XI – AUDIT APPROACH, TECHNIQUES AND SCHEDULES TO BE USED

Proposed Segmentation of the Engagement and Timeline

The audit will be performed in four phases:

Initial Planning Meeting | During a mutually acceptable time frame, normally May through June of each year.

The Engagement Partner and Manager will meet with City's Management to get up to speed with City policies and procedures, establish any specific requirements Management may have, identification of unique transactions, implementation of new GASB pronouncements, and develop the audit work plan for the engagement.

Interim | May commence July of each year.

The Engagement Team—including the Engagement Partner—will assess accounting policies adopted by the City, obtain an understanding of the City and its operating environment, review internal controls on all significant transaction classes, perform walkthroughs and/or tests of internal control, perform preliminary analytical procedures, evaluate Single Audit compliance (if needed), identify any audit issues, and prepare confirmation correspondence. The Engagement Team and City Management will establish expectations including responsibilities and assignments for the year-end audit, and will hold a progress status meeting at the end of the Interim phase.

Year-End | May commence during the last week of August or the first week of September of each year.

The Engagement Team—including the Engagement Partner—will conduct audit procedures on account balances in the general ledger, finish confirmation procedures, perform preliminary analytical procedures, search for unrecorded liabilities, perform substantive analytical review procedures, complete work on compliance with Federal Assistance, and conclude fieldwork. The Engagement Team and City Management will hold an exit conference at the end of the Year-End phase.

Reporting | Camera ready copy of the CAFR and Single Audit Report to the Chief Financial Officer by November 10th. Final draft of the Report will be provided to the Audit Committee by December 1st.

The Firm will review and prepare audit reports and perform quality control procedures in accordance with the Quality Control Standards issued by the AICPA. We will also review reports for compliance with GFOA reporting guidelines at no additional cost. Any comments will be issued in a letter to Management. At the City's request, the Engagement Partner and Manager will present the audit to the City's governing body.

The Firm will complete the audit fieldwork and issue all reports within the established timeframe, assuming no internal City circumstances delay the audit.

Level of staff and number of hours to be assigned to each proposed segment of the engagement

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

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Example of Major Areas (not limited to):

- Audit of the City's financial statements and the related notes to financial statements
- Single Audit procedures and required reporting (if applicable)
- Agreed-upon procedures on Appropriations Limit calculation
- Communication with those charged with governance
- Internal Control and Management Letters (if applicable)

Total Hours:

Staff Classification Performing Work	Estimated Hours Annually
Partners	300
Managers	300
Supervisory	400
Senior Accountants	400
Staff Accountants	540
Clerical	60
Total Annual Hours:	2,000

Hours by Audit Phase	Hours
Phase I - Planning	200
Phase II - Interim	600
Phase III - Year End	700
Phase IV - Reporting	500
Total Annual Hours:	2,000

Sampling methodology and the extent to which statistical sampling is to be used in the engagement

In our audit approach, statistical sampling is used in conjunction with our skilled judgment and knowledge of each situation. The population size and assurance level needed from any given test will determine the sample size used in our testing.

Extent of use of electronic audit software in the engagement

We use EDP Software in our engagement to increase our efficiency and quality of our work and meet the new professional requirements regarding fraud and internal control. Our engagement team will import data from the City's financial software and extract useful data for the purpose of testing and analytical procedures particular in the following areas:

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

CITY OF STOCKTON***Proposal to Perform Professional Auditing Services***

Type and extent of analytical procedures to be used in the engagement

We use analytical procedures during the interim phase to set up expectations for the year-to-date results and balances and compare them with budgeted and prior-year amounts. This allows us to forecast year-end amounts, reducing the workload during the year-end phase and allowing us to focus on areas of concern.

We also use trend and ratio analysis to identify any uncertain or unusual events. In order to perform these analysis, our firm performs a survey of cities and counties and develops benchmarks on certain key financial indicators, such as cost of services to tax revenues ratios, average general fund balance, capital assets, debt per capital, general fund unassigned fund balance to total general fund expenditures, etc. Our staff members have previous experience in successfully implanting analytical procedures to the City's benefit.

Approach to be taken to gain and document an understanding of the City of Stockton's internal control structure

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

The Engagement Team will perform a walkthrough of the City's accounting systems, including processes for financial reporting, revenue recognition and cash receipts, purchasing/contract management and cash disbursements, and payroll and related liabilities, etc. Auditors will document the process with a flowchart or narrative summary.

Use of the City's information technology resources in terms of computer time, operator time and programmer time

As defined under the AICPA risk-based auditing standards, Information Technology requires special consideration in the practical application of risk based auditing. Our Firm approach is to access those individuals who have knowledge of the City's Information Technology department. Our IT specialist will interview the City's IT Manager and selected analysts and/or programmers in order to evaluate the operating environment and structure in which transactions are processed and backed up in order to assess the overall risk to the audit that the IT environment poses. IT personnel will be requested to provide systems documentation and to answer any follow up questions our IT specialist may have. Certain computer operators will be selected in order to review the operator's information systems module access rights, however, direct auditor access to the City's computers will not be required. By doing this, we will accomplish the following:

1. IT risk assessment procedures are necessary to completely identify and understand how IT affects financial statement assertions and the level of risk;
2. By gaining an understanding of the City's controls that exist to mitigate IT-related risks, we may be able to incorporate test of IT controls into further audit procedures and thus improve the overall efficiency of our audit procedures;
3. IT risk assessment procedures often improve our understanding of how computer-aid audit tools and techniques can be applied to improve the efficiency of substantive audit procedures; and
4. IT risk assessment procedures can be leveraged to provide valuable recommendations to management.

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Approach to be taken in determining laws and regulations that will be subject to audit test work

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

For example, the Single Audit Act requires that we determine which grants to include in our audit and select transactions from those grants for detailed testing. While most transactions are tested as part of the Interim phase, we cannot determine which grants to test for the Single Audit until the Year-End phase of audit.

Our compliance audits of cash, investments, debt covenants, and other areas are performed in accordance with the California Government code, which has many provisions and regulations covering investments.

Approach to be taken in drawing audit samples for purposes of tests of compliance

To test compliance, we follow the AICPA's *Audit Sampling Considerations of Circular A-133 Compliance Audits*. We will select an appropriate sample size based on our professional judgment and knowledge. Any deviations from control and compliance requirements will be documented.

GASB Implementation Specialist

Gary M. Caporicci, the Firm's *GASB Implementation Specialist*, is an **appointed member to the State Retirement Advisory Committee by the State Controller** and has tremendous expertise in assisting clients with the implementation of GASB pronouncements.

For more than 40 years, Mr. Caporicci has successfully provided professional auditing, accounting, financial reporting and management advisory/consulting services to a broad spectrum of governmental entities.

Caporicci is a leader in the new GASB standards going into effect in the coming years. He will actively assist the City during the process of implementation and compliance related to new accounting standards.

Client Training Seminar

Every year, the Firm hosts a conference to update governmental clients on new technical accounting and financial issues. The day-long session—held in Clovis, San Diego, Cerritos, and Danville—qualifies for **eight hours of CPE** with the California Board of Accountancy.

Participants of last year's training seminar received a high-level examination of numerous technical issues, including the following:

- GASB 68 – *Accounting and Financial Reporting for Pensions*
- GASB 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date*- an amendment of GASB Statement 68
- GASB Updates
 - ✓ GASB 72 – *Fair Value Measurement and Application*
 - ✓ GASB 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*
 - ✓ GASB 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
 - ✓ GASB 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- Uniform Grant Guidance
- Survey of Cities and Counties

Importantly, all of our clients are invited to attend the Pun Group, LLP client training seminar **FREE OF CHARGE**.

CITY OF STOCKTON*Proposal to Perform Professional Auditing Services***SECTION XII – SCOPE SECTION**

The City of Stockton is requesting an opinion as to the fair presentation of its basic financial statements in accordance with generally accepted accounting principles (GAAP) and applicable laws and regulations. These audits are to be performed in accordance with all applicable and generally accepted auditing standards, including, but not limited to, the following:

- Generally accepted auditing standards as set forth by the American Institute of Certified Public Accountants.
- The standards applicable to financial audits contained in the most current version of the Generally Accepted Government Auditing Standards (Yellow Book), issued by the Comptroller General of the United States.
- The provisions of the Single Audit Act as amended in 1996.
- The provisions of U.S. Office of Management and Budget (OMB) Uniform Grant Guidance (formerly known as Circular A-133), Audits of State and Local Governments and Non-Profit Organizations and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.
- Applicable State of California audit guidelines.

To accomplish this task, the Firm will:

- ✓ Perform certain limited procedures involving Management's Discussion and Analysis and Required Supplementary Information required by the Governmental Accounting Standards Board as mandated by generally accepted accounting standards.
- ✓ Perform an audit of all funds of the City. The audit will be conducted in accordance with Generally Accepted Government Auditing Standards. The CAFR will be in full compliance with all current GASB pronouncements.
- ✓ Provide assistance in meeting the requirements for the Government Finance Officers Association (GFOA) "Certificate of Achievement for Excellence in Financial Reporting".
- ✓ Prepare a Single Audit Report which will include the following:
 - Report on compliance and on internal control over financial reporting based on audit of financial statements performed in accordance with Government Auditing Standards.
 - Report on compliance with requirements applicable to each major program, internal control over compliance, and on the schedule of expenditures of federal awards in accordance with Uniform Grant Guidance, OMB Circular A-133, "Audits of State and Local Governments", and the Single Audit Act of 1984 (Public Law 98-502).
 - Schedule of Expenditures of Federal Awards.
 - Notes to Schedule of Expenditures of Federal Awards.
 - Schedule of Findings and Questioned Costs.
 - Any other required schedules or reports.
 - Prepare the Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations.
- ✓ Perform agreed-upon auditing procedures pertaining to the City's GANN Limit (Appropriations Limit) and render a letter annually to the City regarding compliance.
- ✓ Audit the schedule of revenues, expenditures and changes in fund balance of the Measure W ¼ sales tax measure approved by voters in 2004.
- ✓ Issue a separate "management letter" that includes recommendations for improvements on internal control, accounting procedures and other significant observations that are considered to be no reportable conditions.
- ✓ Provide assistance in the implementation of applicable GASB pronouncements not yet in effect.

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The Firm will be available for consultation by phone on accounting and financial issues during the year at no extra cost. The Firm will also serve as auditor for certain addition projects and studies as may be deemed necessary by the City.

The Firm will make an immediate written report of all irregularities and illegal acts or indications of illegal acts of which they become aware to the City Council, Audit Committee, City Manager, Chief Financial Officer and City Attorney.

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

Reports to be Issued

The following reports will be issued at the fiscal year's financial statements completion:

- Comprehensive Annual Financial Report – Electronic Copy
- Report on Internal Control – Electronic Copy
- Single Audit Report – 30 bound copies, one (1) unbound original and one (1) electronic copy.
- Appropriations Limit (Article XIII B) – Electronic Copy
- Measure W
- Management Letter – Electronic Copy
- Agreed-Upon Procedures (Signed Independent Auditor's review of major revenues required by the Bankruptcy Agreement with Assured Guarantee)
- Communication of Internal Controls Related Matters – 25 bound reports to the Audit Committee, one (1) unbound original and one (1) electronic copy.

Working Paper Retention and Access to Working Papers

The Firm will retain, at its own expense, all working papers and reports for a minimum of (7) seven years, unless the City notifies the Firm in writing of the need to extend the retention period. Upon request, the Firm will make working papers available to City of Stockton or other governmental agencies included in the federal or state grant audits. The Firm will comply with reasonable requests from successor auditors and allow them to review working papers that relate to matters of continuing accounting significance.

Additional Services

The Firm would like to propose to prepare State Controller's Office regulatory filings for the City. Our response for this request will be included under the **Appendices Section** of this proposal.

The deadline for the filing of the reports is as below:

- Cities Annual Financial Transactions Report (90 days after the close of the fiscal year / 110 days if filing in the electronic format report prescribed by the California State Controller)
- Annual Street Report to the State Controller (By October 1)

The Firm may also be asked to examine or prepare other reports or perform other services as required.

Supplemental reports and other audits or agreed-upon procedures may be agreed to in writing, prior to commencing work. The scope of the study and associated costs will be discussed and approved by the Firm and the City.

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Special Considerations

The Firm acknowledges the following considerations listed on the RFP:

- a. The City of Stockton currently anticipates it may prepare one or more official statements in connection with the sale of debt securities that will contain the basic financial statements and the Firm's report thereon. The Firm will be required, if requested by the fiscal advisor and/or the underwriter, to issue a "consent and citation of expertise" as the external auditor and any necessary "comfort letters."
- b. The City of Stockton has determined that the U.S. Department of Housing and Urban Development functions as the cognizant agency in accordance with the provisions of the Single Audit Act and OMB Circular A-133.
- c. The City of Stockton anticipates the need for assistance from the Firm to comply with GASB pronouncements that take effect during the term of the contract. The level of assistance to be provided will be discussed on a case by case basis and mutually agreed upon by Firm and Chief Financial Officer. Several new GASB pronouncements will become effective over the term of this contract. As such, specific attention will be provided to determine the proper implementation of these new pronouncements. These new pronouncements with implementation dates that fall within the contract period are as follows:
 - GASB 72 – *Fair Value Measurement and Application*
 - GASB 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
 - GASB 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
 - GASB 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
 - GASB 76 – *The Hierarchy of Generally Accepted Account Principles for State and Local Governments*
 - GASB 77 – *Tax Abatement Disclosures*
 - GASB 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
 - GASB 79 – *Certain External Investment Pools and Pool Participants*
 - GASB 80 – *Blending Requirements for Certain Component Units—an amendment of GASB Statement 14*

The Firm will gladly assist the City in complying and implementing new GASB pronouncements.

- d. The City establishes materiality levels for posting year end transactions at the commencement of the audit to assist with year-end closing. A schedule of unposted transactions will be provided to the auditor.
- e. It is the City of Stockton's desire and intent to issue fiscal year 2016 financial statements no later than December 31, 2016, in order to provide timely financial results as it emerges from bankruptcy and prior fiscal emergencies. The City is striving to issue the statements within six (6) months after the end of the fiscal year. Careful planning by both the Firm and the City will be required to accomplish this goal. The Firm will propose an audit staffing and work plan in order to meet those filing requirements.
- f. The City of Stockton obtains grants from various State of California agencies and desires to meet the audit requirements in the most cost efficient method possible. This may require some additional audit services as mutually agreed upon by the Firm and the City of Stockton.
- g. The City contracts with SMG for management of the City's Arena, Ballpark (for times when the Ballpark is not operated by the Ports), Events Center Common Areas, Bob Hope Theater, and Oak Park Ice Center, all owned by the City. The City needs to ensure the revenue and expenses for each facility are included in the annual financial statements and subsequent audit. A separate report is issued by SMG and audited by other auditors as of June 30 for these operations. The agreement provides the Firm complete access to the facilities' books and records. Should the City receive other than an "unqualified" opinion as a result of deficiencies with any facility, the City may require some additional audit services as mutually agreed upon by the Firm and the City. In addition, the City contracts with WestRec for management of its Downtown

CITY OF STOCKTON

Proposal to Perform Professional Auditing Services

Marina. The City also needs to ensure the transactions related to this property are included in the annual financial statements and subjected to audit. There are no separate audits of these financial transactions.

As mentioned above, as the City's auditors we will not only coordinate, but we will manage "other auditors" in the process of auditing the City's financial statements. This process will be performed in accordance with a new AICPA Auditing Standard, Responsibility of Auditors for Audits of Group Financial Statements. In addition, we will carefully review the City contracts where an audit is not performed for inclusion in the City's financial statements.

Objectives of Our Services

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

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

The Engagement Team will perform the audit in accordance with the Firm's quality-control procedures, which include following standard audit programs, careful planning, using industry-standardized software for auditing and internal control documentation, and welcoming an objective review of audit work.

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

Our audit approach emphasizes careful planning, open communication, and proper assignment of responsibilities. This method ensures that audit requirements will be met with minimal disruption of the City's daily operations, and that the audit will proceed efficiently with full understanding between the Engagement Team and the City.

Identification of Anticipated Potential Audit Problems

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

- Investments:
 - Compliance with GASB 31 and GASB 34
 - Authorization and approval process for City investments
 - Controls to assure City's compliance with investment limitations and types of specific investments
 - Monitoring by the City of its investments
- Financial Reporting:
 - CAFR compliance with current reporting and disclosure requirements issued by GASB
 - CAFR eligibility for financial reporting conformance awards issued by GFOA
 - Compliance with the various GASBs in effect, especially the implementation of GASB 68 and 71 related to pension accounting
 - Compliance with infrastructure obligations and regulatory provisions
- Internal Control Structure:
 - City's internal control functions and compliance with proper internal control philosophies
 - Computer-system processes and controls, and adequacy of the control environment

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Over the period of the engagement, several new GASB pronouncements will become effective. The Engagement Team will pay specific attention to the following new and upcoming pronouncements, and any others that become effective during the proposal period, in order to determine proper implementation procedures:

- GASB 72 – *Fair Value Measurement and Application*
- GASB 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- GASB 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- GASB 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- GASB 76 – *The Hierarchy of Generally Accepted Account Principles for State and Local Governments*
- GASB 77 – *Tax Abatement Disclosures*
- GASB 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
- GASB 79 – *Certain External Investment Pools and Pool Participants*
- GASB 80 – *Blending Requirements for Certain Component Units—an amendment of GASB Statement 14*

Discussion of Relevant Accounting Issues

Over the period of the engagement, several new GASB pronouncements will become effective. The Engagement Team will pay specific attention to the following new and upcoming pronouncements, and any others that become effective during the proposal period, in order to determine proper implementation procedures. Based on our understanding through our study of the City's financials, we have determined the following GASB pronouncements may have some impact to the City's financial statements:

GASB 72 – Fair Value Measurement and Application

GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

GASB 77 – Tax Abatement Disclosures

GASB 79 – Certain External Investment Pools and Pool Participants

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. To determine a fair value measurement, a government should consider the unit of account of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes as provided by the accounting standards. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replace the requirements of GASB Statements No. 45 and 57. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are

CITY OF STOCKTON***Proposal to Perform Professional Auditing Services***

administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

GASB Statement No. 77, *Tax Abatement Disclosures*, requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The Firm believes the following pronouncement has minimal impact to the City's financial statements:

- GASB 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- GASB 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- GASB 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
- GASB 80 – *Blending Requirements for Certain Component Units—an amendment of GASB Statement 14*

SECTION XIII – ADDITIONAL DATA

There is no additional data we wish to present.

CITY OF STOCKTON***Proposal to Perform Professional Auditing Services***

Benefits of Choosing The Pun Group, LLP

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

We trust that this proposal has given you the information you need about the Firm, the Engagement Team members, overall audit approach, cost-saving measures, and audit fees. We are committed to exceeding your expectations, and we look forward to bringing our experience and expertise to the City of Stockton and providing you with the excellent level of service that you expect and deserve.

Thank You

Thank you for giving us the opportunity to introduce the Firm and submit our qualifications to provide you with audit services. Please direct inquiries to:

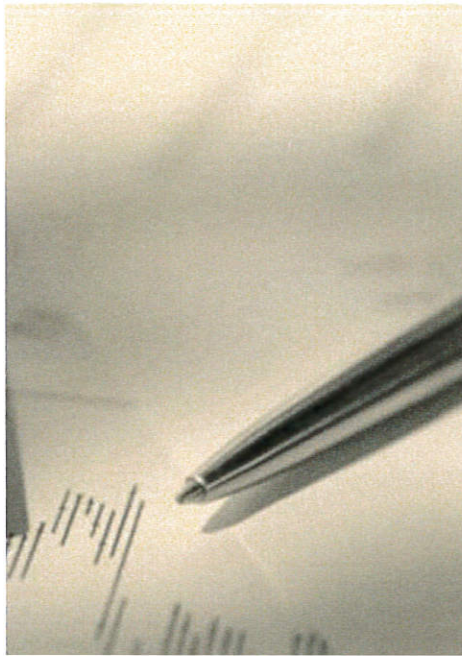
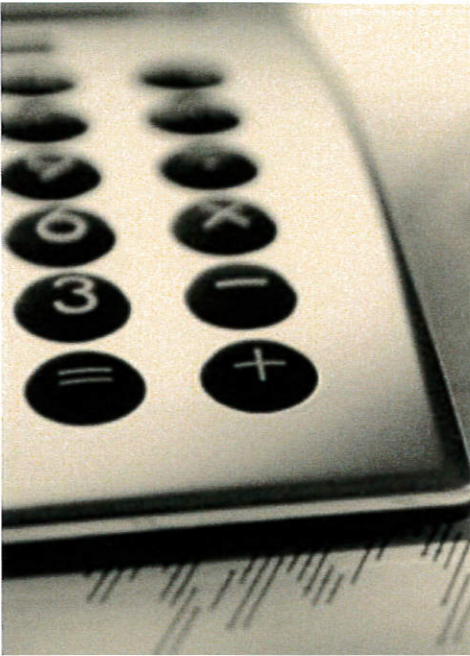
Mr. Kenneth H. Pun, CPA, CGMA
Managing Partner
200 East Sandpointe Avenue, Suite 600
Santa Ana, California 92707
ken.pun@pungroup.com
(949) 777-8801

Sincerely,

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

The Pun Group, LLP
Certified Public Accountants and Business Advisors

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COST PROPOSAL

CITY OF STOCKTON **STOCKTON, CALIFORNIA**

Proposal to Perform Professional Auditing Services **(PUR 15-032)**

For fiscal years ending June 30, 2016, 2017, and 2018 with two one-year options to extend for the fiscal years ending June 30, 2019 and 2020

APRIL 7, 2016

Kenneth H. Pun, CPA, CGMA

Managing Partner

200 East Sandpointe Avenue, Suite 600, Santa Ana, CA 92707

Phone: (949) 777-8801 | **Fax:** (949) 777-8850 | **Email:** ken.pun@pungroup.com

California CPA License Number: PAR 7601

Federal Identification Number: 46-4016990



CITY OF STOCKTON*Proposal to Perform Professional Auditing Services*

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CITY OF STOCKTON

Proposal to Perform Professional Auditing Services

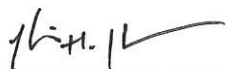
SECTION I – COST PROPOSAL

Certification

We are committed to the performance of a high quality audit at the most reasonable fee level possible, both initially and throughout the engagement. Also, our partners will provide advice and consultation as needed, at no additional cost to the City of Stockton.

Name of Firm: The Pun Group, LLP
 Certified Public Accountants and Business Advisors
 200 Sandpointe Avenue, Suite 600
 Santa Ana, California 92707

Certification: Kenneth H. Pun is entitled to represent the Firm, empowered to submit the bid, and authorized to sign a contract with the City of Stockton.



Kenneth H. Pun, CPA, CGMA | Managing Partner
 The Pun Group, LLP

Total All-Inclusive Maximum Price

Following are our total fixed fees fiscal years ending June 30, 2016, 2017, and 2018 with two one-year options to extend for the fiscal years ending June 30, 2019 and 2020.

Services	Optional Years				
	2015-16	2016-17	2017-18	2018-19	2019-20
City Audit and Report on Internal Control	\$ 274,000	\$ 282,220	\$ 290,687	\$ 299,407	\$ 308,389
Single Audit*	\$ 15,000	\$ 15,450	\$ 15,914	\$ 16,391	\$ 16,883
GANN	\$ 1,000	\$ 1,030	\$ 1,061	\$ 1,093	\$ 1,126
Measure W	\$ 5,000	\$ 5,150	\$ 5,305	\$ 5,464	\$ 5,628
Total (not to exceed)	\$ 295,000	\$ 303,850	\$ 312,966	\$ 322,354	\$ 332,025
Additional Optional Services	2015-16	2016-17	2017-18	2018-19	2019-20
Cities Annual Financial Transactions Report	\$ 8,000	\$ 8,240	\$ 8,487	\$ 8,742	\$ 9,004
Annual Street Report to the State Controller	\$ 2,000	\$ 2,060	\$ 2,122	\$ 2,185	\$ 2,251
Total (not to exceed)	\$ 10,000	\$ 10,300	\$ 10,609	\$ 10,927	\$ 11,255

*Based on the information provided by the City of Stockton and our understanding of the engagement, the City is subject to the Single Audit Act in accordance with OMB Uniform Grant Guidance. The Single Audit fees are based on (3) three major programs. If the City of Stockton applies for additional funding subsequent to the preparation of this proposal, the fee to audit additional major programs will be \$5,000 each. The number of programs determined to be "major" will be based on OMB Uniform Grant Guidance. The Engagement Team will discuss this with the City's Management before starting Single Audit work.

CITY OF STOCKTON

Proposal to Perform Professional Auditing Services

Estimated Total Hours

Estimated total hours for the engagement for the fiscal years ending June 30, 2016, 2017, and 2018 with two one-year options to extend for the fiscal years ending June 30, 2019 and 2020 are as follows:

Fiscal Year Ending	Estimated Total Hours
June 30, 2016	2,000
June 30, 2017	2,000
June 30, 2018	2,000
June 30, 2019	2,000
June 30, 2020	2,000

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

The Firm's policy is to maintain flexible billing rates in order to meet the needs of clients and help them control costs. In the interest of **continuing** our long-term relationship, we will **absorb all costs** required to familiarize ourselves with the operations and accounting systems, as well as, travel and printing costs. Additionally, our Partners will be available to provide advice and consultation as necessary to the City of Stockton. These **costs** will also be **absorbed** by the Firm.

Rates for Additional Professional Services

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

Auditor's Standard Hourly Billing Rates	
Position	FY 2015-16
Partner(s)	\$ 250
Senior Manager(s)	\$ 225
Manager(s)	\$ 200
Supervisor(s)	\$ 175
Senior Accountant(s)	\$ 150
Staff Accountant(s)	\$ 125
Clerical	\$ 100

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

Manner of Payment

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

Work Performed	% of Proposal Amount
For Planning	10%
For Interim work	40%
For Year-End work	40%
At Presentation and Acceptance of Final Reports	10%
Total	100%



EXHIBIT "C"**Insurance Requirements for Professional Services**

FIRM shall procure and maintain for the duration of the contract insurance against claims for injuries to persons or damages to property which may arise from or in connection with the performance of the work hereunder by the FIRM, its agents, representatives, or employees.

MINIMUM SCOPE AND LIMIT OF INSURANCE

Coverage shall be at least as broad as:

1. **Commercial General Liability (CGL):** Insurance Services Office Form CG 00 01 covering CGL on an "occurrence" basis, including products and completed operations, property damage, bodily injury and personal & advertising injury with limits no less than **\$1,000,000** per occurrence. If a general aggregate limit applies, either the general aggregate limit shall apply separately to this project/location or the general aggregate limit shall be twice the required occurrence limit.
2. **Automobile Liability:** Insurance Services Office Form Number CA 0001 covering, Code 1 (any auto), or if FIRM has no owned autos, Code 8 (hired) and 9 (non-owned), with limit no less than **\$1,000,000** per accident for bodily injury and property damage.
3. **Workers' Compensation** insurance as required by the State of California, with Statutory Limits, and Employer's Liability Insurance with limit of no less than **\$1,000,000** per accident for bodily injury or disease. ***(Not required if FIRM provides written verification it has no employees)***
4. **Professional Liability (Errors and Omissions)** Insurance appropriate to the FIRM's profession, with limit no less than **\$1,000,000** per occurrence or claim, \$1,000,000 aggregate. (If Claims-made, see below.)

If the FIRM maintains higher limits than the minimums shown above, the City of Stockton requires and shall be entitled to coverage for the higher limits maintained by the FIRM. Any available insurance proceeds in excess of the specified minimum limits of insurance and coverage shall be available to the City of Stockton.

Other Insurance Provisions

The insurance policies are to contain, or be endorsed to contain, the following provisions:

Additional Insured Status

The City of Stockton, its Mayor, Council, officers, representatives, agents, employees and volunteers are to be covered as additional insureds on the CGL policy and AL policy with respect to liability arising out of work or operations performed by or on behalf of the FIRM including materials, parts, or equipment furnished in connection with such work or operations. General liability coverage can be provided in the form of an endorsement to the FIRM's insurance (**at least as broad as** ISO Form CG 20 10 11 85 or both CG 20 10 and CG 20 37 forms if later revisions used).

Primary Coverage

For any claims related to this contract, the **FIRM's insurance coverage shall be primary** insurance as respects the City of Stockton, its Mayor, Council, officers, representatives, agents, employees and volunteers. Any insurance or self-insurance maintained by the City of Stockton, its Mayor, Council, officers, representatives, agents, employees and volunteers shall be excess of the FIRM's insurance and shall not contribute with it. The City of Stockton does not accept primary endorsements limiting the FIRM's insurance coverage to sole negligence.

Notice of Cancellation

Each insurance policy required above shall state that **coverage shall not be canceled, except with notice to the City of Stockton.**

Waiver of Subrogation

FIRM hereby grants to City of Stockton a waiver of any right to subrogation which any insurer of said FIRM may acquire against the City of Stockton by virtue of the payment of any loss under such insurance. FIRM agrees to obtain any endorsement that may be necessary to affect this waiver of subrogation, but this provision applies regardless of whether or not the City of Stockton has received a waiver of subrogation endorsement from the insurer.

Deductibles and Self-Insured Retentions

Any deductibles or self-insured retentions must be declared to and approved by the City of Stockton Risk Services. The City of Stockton may require the FIRM to provide proof of ability to pay losses and related investigations, claim administration, and defense expenses within the retention.

Acceptability of Insurers

Insurance is to be placed with insurers with a current A.M. Best's rating of no less than A:VII if admitted to do business in the State of California; if not admitted to do business in the State of California, insurance is to be placed with insurers with a current A.M. Best's rating of no less than A+:X.

Claims Made Policies

If any of the required policies provide coverage on a claims-made basis:

1. The Retroactive Date must be shown and must be before the date of the contract or the beginning of contract work.

2. If Claims Made policy form is used, a three (3) year discovery and reporting tail period of coverage is required after completion of work.

Verification of Coverage

FIRM shall furnish the City of Stockton with original certificates and amendatory endorsements required by this clause. All certificates and endorsements are to be received and approved by the City of Stockton Risk Services before work commences. Failure to obtain the required documents prior to the work beginning shall not waive the FIRM's obligation to provide them. The City of Stockton reserves the right to require complete, certified copies of all required insurance policies, including endorsements required by these specifications, at any time, for any reason or no reason.

FIRM shall, prior to the commencement of work under this Agreement, provide the City of Stockton with a copy of its Declarations Page and Endorsement Page for each of the required policies.

Certificate Holder Address

Proper address for mailing certificates, endorsements and notices shall be:

- City of Stockton
- Attention: Risk Services
- 425 N El Dorado Street
- Stockton, CA 95202

City of Stockton Risk Services Phone: 209-937-5037

City of Stockton Risk Services Fax: 209-937-8558

Maintenance of Insurance

If at any time during the life of the Contract or any extension, the FIRM fails to maintain the required insurance in full force and effect, all work under the Contract shall be discontinued immediately. Any failure to maintain the required insurance shall be sufficient cause for the CITY to terminate this Contract.

Subcontractors

FIRM shall require and verify that all subcontractors maintain insurance meeting all the requirements stated herein, and FIRM shall ensure that City of Stockton is an additional insured on insurance required from subcontractors.

Special Risks or Circumstances

City of Stockton reserves the right to modify these requirements, including limits, based on the nature of the risk, prior experience, insurer, coverage, or other special circumstances.