

Fallbrook Public Utility District

**Single Audit Report
(OMB Circular A-133)**

For the Year Ended June 30, 2013

FALLBROOK PUBLIC UTILITY DISTRICT
Single Audit Report
(OMB Circular A-133)

For the Year Ended June 30, 2013

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**Independent Auditor’s Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Sacramento

Walnut Creek

Oakland

LA/Century City

Newport Beach

Seattle

The Honorable Board of Directors
of the Fallbrook Public Utility District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Fallbrook Public Utility District (District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 3, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and is not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over compliance. Accordingly, this communication is not suitable for any other purpose.

Macia Mini & O'Connell LLP

San Diego, California
December 3, 2013

**Independent Auditor’s Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance; and Report on the Schedule of
Expenditures of Federal Awards Required by OMB Circular A-133**

Sacramento

Walnut Creek

Oakland

LA/Century City

Newport Beach

Seattle

The Honorable Board of Directors
of the Fallbrook Public Utility District

Report on Compliance for Each Major Federal Award Program

We have audited the Fallbrook Public Utility District’s (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the District’s major federal program for the year ended June 30, 2013. The District’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal program.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the District’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District’s compliance.

Opinion on the District’s Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District’s internal control over compliance with the types of

compliance requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the District as of and for the year ended June 30, 2013, and the related notes to the financial statements. We issued our report thereon dated December 3, 2013, which contained an unmodified opinion on the basic financial statements. Our audit was conducted for the purpose of forming our opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financials statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macinn Mini & O'Connell LLP

San Diego, California
December 3, 2013

FALLBROOK PUBLIC UTILITY DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

| Federal Grantor/Pass-Through Grantor/Federal Program Title | Federal CFDA Number | Pass-Through Number | Federal Expenditures |
|--|---------------------------|------------------------|-------------------------|
| <u>U.S. Environmental Protection Agency</u> | | | |
| Passed through the California State Water Resources Control Board: | | | |
| Capitalization Grants for Clean Water State Revolving Funds | 66.458 | 12-807-550 | \$ <u>1,322,354</u> |

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Schedule of Expenditures of Federal Awards Costs
For the Year Ended June 30, 2013

(1) GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the expenditures of the Fallbrook Public Utility District's (District) federal award program for the year ended June 30, 2013. The District's reporting entity is defined in Note 1 to the District's financial statements.

(2) BASIS OF ACCOUNTING

The expenditures of the District's federal award program is recorded within the enterprise fund of the District. The District utilizes the accrual basis of accounting for its enterprise fund as described in Note 2 to the District's financial statements. The accompanying SEFA is presented using the cash basis of accounting. Since the District's only federal award program is related to a loan agreement with the California State Water Resources Control Board for funding under the Capitalization Grants for Clean Water State Revolving Funds program (CFDA 66.458), expenditures are reported on a cash basis in the SEFA.

(3) CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA)

The CFDA number included in the accompanying SEFA was determined based on the program name, review of grant agreement and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

(4) CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLVING FUNDS

During the year ended June 30, 2013, the District entered into a loan agreement in the amount of \$22,154,148 with the California State Water Resources Control Board, which will be used to fund allowable costs incurred in connection with the Fallbrook Wastewater Treatment Plant I Rehabilitation Project (Project). The Project consists of rehabilitation of all facilities including the equalization basin, operations center, and reclamation facilities. Since the loan agreement was not signed and approved until November 2012, allowable costs associated with the Project incurred by the District during the fiscal years ended June 30, 2012 and 2011 in the amounts of \$795,893 and \$203,802, respectively, are included in the SEFA.

(5) LOAN OUTSTANDING

The District had the following loan balance (federally funded portion) outstanding as of June 30, 2013.

| Federal Program | Pass-Through Entity | Federal CFDA Number | Amount Outstanding |
|--|--|---------------------|--------------------|
| Capitalization Grants for Drinking Water State Revolving Funds | California State Department of Public Health | 66.468 | \$ 4,754,111 |
| Capitalization Grants for Clean Water State Revolving Funds | California State Water Resources Control Board | 66.458 | 1,322,354 |

FALLBROOK PUBLIC UTILITY DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section I – Summary of Auditor’s Results

Financial statements:

| | |
|--|---------------|
| Type of auditor’s report issued: | Unmodified |
| Internal control over financial reporting: | |
| • Material weaknesses identified? | No |
| • Significant deficiencies identified that are not considered to be material weaknesses? | None reported |
| Noncompliance material to the financial statements noted? | No |

Federal Awards:

| | |
|--|------------|
| Internal control over major programs: | |
| • Material weaknesses identified? | No |
| • Significant deficiencies identified that are not considered to be material weaknesses? | No |
| Type of auditor’s report issued on compliance for the major program: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No |

Identification of major programs:

| <u>CFDA Number</u> | <u>Federal Program Name</u> |
|--|---|
| 66.458 | Capitalization Grants for Clean Water State Revolving Funds |
| Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| Auditee qualified as a low-risk auditee? | No |

FALLBROOK PUBLIC UTILITY DISTRICT
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2013

Section II – Financial Statement Findings

No matters reported.

Section III – Federal Award Findings and Questioned Costs

No matters reported.

FALLBROOK PUBLIC UTILITY DISTRICT
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2013

No matters were reported in the prior year.