

**CITY OF MORRO BAY**

**OTHER AUDIT REPORTS  
INCLUDING SINGLE  
AUDIT REPORT**

**JUNE 30, 2013**

**CITY OF MORRO BAY**

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June 30, 2013

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**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***

**Independent Auditor's Report**

Honorable Mayor and Members of the  
City Council  
Morro Bay, California

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 financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Morro Bay, California(City) as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise City's basic financial statements, and have issued our report thereon dated March 18, 2014.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of 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 a 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 the 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 City'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*.

Honorable Mayor and Member of the  
City Council  
Morro Bay, California  
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**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 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 and compliance. Accordingly, this communication is not suitable for any other purpose.

*Pressley & Associates, Inc.*

**Accountancy Corporation**

Arroyo Grande, California  
March 18, 2014

## **SINGLE AUDIT REPORTS**

**Report on Compliance For Each 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**

**Independent Auditor's Report**

Honorable Mayor and Member of the  
City Council  
Morro Bay, California

**Report on Compliance for Each Major Federal Program**

We have audited City of Morro Bay's (City), 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 each of the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are 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 programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion of compliance for each of the City's major federal programs 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 City'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 each major federal program. However, our audit does not provide a legal determination of City's compliance.

***Opinion on Each Major Federal Program***

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

### **Report on Internal Control Over Compliance**

Management of the City 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 City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 City'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 the internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a 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 a 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.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of City as of and for the year ended June 30, 2013, and have issued our report thereon dated February 18, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 financial statements.

Honorable Mayor and Member of the  
City Council  
Morro Bay, California  
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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 financial statements or to the financial 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Pressley & Associates, Inc.*

Accountancy Corporation

Arroyo Grande, California  
March 18, 2014

**City of Morro Bay  
Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2013**

Federal Grantor/pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Agriculture:</b>			
Pass Through the State of California Department of USDA Rural Development for the Rural Housing Service			
Community Facilities Loans and Grants	*	10.766 862997-03	\$ 1,449,000
<b>U.S. Department of Housing Urban Development:</b>			
Pass Through the County of San Luis Obispo Department of Planning and Building			
Community Development Block Grant	14.218	N/A	14,276
<b>U.S. Department of Interior</b>			
Pass Through the State of California Department of Boating & Waterways			
Wetlands Conservation - Tidelands Dock	15.616	10-107-715	15,000
<b>U.S. Department of Homeland Security:</b>			
Pass Through the State of California Department of FEMA <b>ARRA - Assistance to Firefighters Station</b> Construction Grants			
	97.115	N/A	<u>649,169</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 2,127,445</u></u>

\* Designates a major program

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

**City of Morro Bay**  
**Notes to the Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2013**

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Morro Bay, under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

**Note 2: Summary of Significant Accounting Policies**

- Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for States, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- Pass-through entity identifying numbers are presented where available.

**Note 3: Loans Outstanding**

The City had the following loan balance outstanding at June 30, 2013. The portion of the loan balance expended for the project is included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
USDA - Community Facilities - Police station loan	10.766	\$ 35,419
USDA - Community Facilities - Police station loan	10.766	<u>35,419</u>
		<u>\$ 70,838</u>

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**City of Morro Bay  
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 weakness(es) identified?	___	yes	X	no
• Significant deficiency(ies) identified?	___	yes	X	none reported
Noncompliance material to financial statements noted?	___	yes	X	no

***Federal Awards***

Internal control over major programs:				
• Material weakness(es) identified?	___	yes	X	no
• Significant deficiency(ies) identified?	___	yes	X	none reported
Type of auditor's report issued on compliance for major programs			Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	___	yes	X	no
Identification of major programs:				

<u>CFDA #(s)</u>	<u>Name of Federal Program or Cluster</u>
10.766	U.S. Department of Agriculture - Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A and type B programs was \$300,000.

Auditee qualified as low-risk auditee?		X	yes		___	no
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**City of Morro Bay  
Schedule of Findings and Questioned Costs**

**For the Year Ended June 30, 2013**

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**Section II – Financial Statement Findings**

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There were no financial statement findings.

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**Section III – Federal Award Findings and Questioned Costs**

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There were no findings and questioned costs for Federal awards.

**City of Morro Bay  
Status of Prior Audit Year Findings  
For the Year Ended June 30, 2013**

There were no prior year audit findings.