

City of Encinitas

Encinitas, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2018

City of Encinitas

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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 Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of Encinitas
Encinitas, 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, each major fund, and the aggregate remaining fund information of the City of Encinitas, California (the "City") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 our opinion 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 the City'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 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 internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Honorable Mayor and Members of City Council
of the City of Encinitas
Encinitas, California
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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.

The PwC Group, LLP

San Diego, California
December 27, 2018



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of Encinitas
Encinitas, California

Report on Compliance for Each Major Federal Program

We have audited the City of Encinitas' (the "City") compliance with the types of compliance requirements described in the *OMB 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, 2018. The City's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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 the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City 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, 2018.

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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 the Uniform Guidance, 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

To the Honorable Mayor and Members of City Council
of the City of Encinitas
Encinitas, California
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Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2018, and have issued our report thereon dated December 27, 2018 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the City's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other 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 Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The PwC Group, LLP

San Diego, California
December 27, 2018

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City of Encinitas
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

<u>Federal Grantor/Pass - Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
<u>U.S. Department of Housing and Urban Development</u>				
<i>Direct Programs:</i>				
CDBG Entitlement Grant Cluster:				
Community Development Block Grant	14.218	B-17-MC-06-0574	\$ 102,935	\$ 59,872
		B-16-MC-06-0574	48,225	-
		B-15-MC-06-0574	12,103	-
		B-14-MC-06-0574	51,391	-
		Total 14.218	<u>214,654</u>	<u>59,872</u>
Housing Voucher Cluster:				
Section 8 Housing Choice Vouchers	14.871	CA155VO	1,093,800	-
Total U.S. Housing and Urban Development			<u>1,308,454</u>	<u>59,872</u>
<u>U.S. Department of Health and Human Services</u>				
<i>Passed through the County of San Diego Health and Human Services Agency:</i>				
Aging Cluster:				
Title III - C1 Congregate Meals	93.045	547764	42,331	-
Title III - B Transportation	93.044	547764	9,399	-
Title III - NSIP C1 Incentive	93.053	547764	7,365	-
		Total Aging Cluster	<u>59,095</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>59,095</u>	<u>-</u>
<u>U.S. Department of Homeland Security</u>				
<i>Passed through the California Office of Emergency Services:</i>				
Homeland Security Grant Program (HSGP)	97.067	2016-00102	39,135	-
Urban Area Security Initiative (UASI)	97.067	2016-00102	4,296	-
		Total 97.067	<u>43,431</u>	<u>-</u>
FEMA - Storm 2017	97.036	FEMA-4305-DR-CA	72,082	-
Total U.S. Department of Homeland Security			<u>115,513</u>	<u>-</u>
<u>U.S. Department of Transportation</u>				
<i>Passed through the California Department of Transportation</i>				
Highway Planning and Construction Cluster:				
Highway Safety Improvement Program	20.205	HSIP-5446(018-020)	353,705	-
Total Highway Planning and Construction Cluster			<u>353,705</u>	<u>-</u>
Total U.S. Department of Transportation			<u>353,705</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 1,836,767</u>	<u>\$ 59,872</u>

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

City of Encinitas
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Note 1 – Reporting Entity

The City of Encinitas (the City) was incorporated on October 1, 1986, pursuant to an election approving the San Dieguito Reorganization Plan, which consisted primarily of the detachment of territory from the Cardiff area and the annexation of the same territory to the City of Solana Beach.

The reporting entity of the City includes the accounts of the City, as the primary government, and the following blended component units: the Encinitas Housing Authority (the EHA), the Encinitas Public Financing Authority (the EPFA), and the San Dieguito Water District (SDWD).

The EHA was formed on January 26, 1994, under the laws of the State of California to provide housing assistance to citizens of the City.

The EPFA was formed on November 6, 1991, by the City and SDWD as a Joint Powers Authority under the laws of the State of California to purchase, finance, and lease certain real property to the members. The member agencies are the City and the SDWD.

SDWD was formed in 1922 under the laws of the State of California to supply water services to the central western portion of San Diego County. Certain management, maintenance, and operating functions are the responsibility of the City, which bills periodically for these services.

The criteria used in determining the scope of the reporting entity are based on the provisions of Governmental Accounting Standards Board (GASB) Statement No 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity - Omnibus –An Amendment of GASB Statements No. 14 and No. 34*. The City is the primary governmental unit. Component units are financially accountable to the City. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body and (1) it is able to impose its will on that organization or (2) there is potential for the organization to provide financial benefit, or impose financial burdens on the primary government. The component units have been accounted for as "blended" component units of the City. Despite being legally separate, these entities are so intertwined with the City that they are, in substance, part of the City's operations. Accordingly, the balances and transactions of these component units are reported within the funds of the City. SDWD is reported as an enterprise fund of the City.

The following specific criteria were used in determining the status of these component units:

- Members of the City Council also act as the governing body of the EHA, the EPFA, and SDWD.
- The City, the EHA, the EPFA, and SDWD are financially interdependent.
- The EHA, the EPFA, and SDWD are managed, at least in part, by employees of the City, who provide various support functions including financial reporting and investment decisions.

Separate financial statements for SDWD are available at the City's administrative office. Separate financial statements are not required or prepared for the EHA and the EPFA.

City of Encinitas
Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2018

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The activity of the City's federal award programs are recorded within the special revenue funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue funds as described in Note (1) to the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards ("SEFA") is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in, the preparation of the City's basic financial statements.

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Encinitas, California (City) and, therefore, does not present the financial position or results of operations of the City. The City's reporting entity is defined in Note (1) to the City's basic financial statements.

Catalog of Federal Domestic Assistance (CFDA) Numbers

The CFDA numbers included in the accompanying SEFA were determined on the program name, review of grant contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

Note 3 – Indirect Cost Rate

The City did not elect to use the 10-percent de minimis rate as allowed under the Uniform Guidance.

City of Encinitas
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I – Summary of Auditors’ Results

Financial Statements

Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? 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 2 CFR 200.516(a)? No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
14.871	Housing Voucher Cluster	<u>\$ 1,093,800</u>
	Total Expenditures of All Major Federal Programs	<u>\$ 1,093,800</u>
	Total Expenditures of Federal Awards	<u>\$ 1,836,767</u>
	Percentage of Total Expenditures of Federal Awards	<u>59.55%</u>

Dollar threshold used to distinguish between type A and type B program \$750,000

Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520? Yes

City of Encinitas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement Audit

No findings were noted on the City’s financial statement audit for the year ended June 30, 2018.

B. Prior Year Findings – Financial Statement Audit

No findings were noted on the City’s financial statement audit for the year ended June 30, 2017.

Section III – Federal Award Findings

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit

No findings or questioned costs were noted on the City’s major programs for the year ended June 30, 2018.

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit

No findings or questioned costs were noted on the City’s major programs for the year ended June 30, 2017.

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