

# City of Merced

Merced, California

*Single Audit Report*

*For the year ended June 30, 2011*

**CITY OF MERCED**

Single Audit Report  
For the Year Ended June 30, 2011

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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***

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

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 of Merced (City), as of and for the year ended June 30, 2011, which collectively comprise the City's financial statements and have issued our report thereon dated March 30, 2012. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

*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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

This report is intended solely for the information and use of management, the City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Gallina LLP*

Roseville, California  
March 30, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Merced (City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (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, 2011. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our

To the Honorable Mayor and Members of City Council  
of the City of Merced  
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opinion on compliance 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### 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 of Merced as of and for the year ended June 30, 2011, and have issued our report thereon dated March 30, 2012 which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

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

This report is intended solely for the information and use of management, the City Council, others within the City, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Gallina LLP*

Roseville, California  
March 30, 2012

CITY OF MERCED  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
<i>Direct Programs:</i>			
CDBG - Entitlement Grants Cluster			
- Community Development Block Grant (CDBG)	14.218	B-09-MC-06-0044	\$ 229,367
- Community Development Block Grant (CDBG)	14.218	B-10-MC-06-0044	1,287,780
Subtotal			1,517,147
- ARRA - Community Development Block Grant	14.253	B-09-MY-06-0044	69,954
Total CDBG - Entitlement Grants Cluster			1,587,101
CDBG - State-Administered Small Cities Program Cluster			
- Neighborhood Stabilization Program	14.228	09-NSP1-6084	1,049,438
Total CDBG - State-Administered Small Cities Program Cluster			1,049,438
- ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257	S-09-MY-06-0044	134,352
<i>Passed through California Department of Housing and Community</i>			
- HOME Investment Partnership Act	14.239	M07-MC060227	99,824
- HOME Investment Partnership Act	14.239	M08-MC060227	32,416
- HOME Investment Partnership Act	14.239	M-09-MC-060227	239,511
- HOME Investment Partnership Act	14.239	M-10-MC-060227	155,165
Subtotal			526,916
<b>Total U.S. Department of Housing and Urban Development</b>			3,297,807
<b>U.S. Department of Justice</b>			
<i>Direct Programs:</i>			
- Secure Our Schools	16.710	2008CKWX0636	72,639
- Secure Our Schools	16.710	2009CKWX0650	41,637
- ARRA - COPS Hiring Recovery Program	16.710	2009RKWX0128	484,503
Subtotal			598,779
- Justice Assistance Grant	16.738	2009-DJ-BX-0878	32,104
- Justice Assistance Grant	16.738	2010-DJ-BX-0436	56,883
Subtotal			88,987
- ARRA - Justice Assistance Grant	16.804	2009-SB-B9-2673	48,601
<b>Total U.S. Department of Justice</b>			736,367
<b>U.S. Department of Transportation</b>			
Federal Aviation Administration			
<i>Direct Programs:</i>			
- Airport Improvement Program	20.106	03-06-0152-17	20,177
- Airport Improvement Program	20.106	03-06-0152-18	1,032,329
Subtotal			1,052,506
- Small Community Air Service Development	20.930	08-SCASDP	27,122
Total Federal Aviation Administration			1,079,628

See accompanying Notes to Schedule of Expenditures of Federal Awards



**CITY OF MERCED**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2011**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Transportation</b> (continued)			
<i>Passed through California Department of Transportation:</i>			
- Highway Planning and Construction Cluster			
- ARRA - 16th Street Overlay	20.205	ESPL-5085(19)	\$ 332,584
- ARRA - Central Merced Reconstruction - 18th Street	20.205	ESPL-5085(20)	1,282,303
Total Highway Planning and Construction Cluster			<u>1,614,887</u>
<i>Passed through California Office of Traffic Safety:</i>			
Highway Safety Cluster			
- DUI Enforcement & Awareness Program	20.600	AL10110	42,903
- DUI Enforcement & Awareness Program	20.600	AL1150	31,200
- AVOID the 10 DUI Campaign	20.600	AL0834	76,039
- AVOID the 11 DUI Campaign	20.600	AL11101	71,901
Total Highway Safety Cluster			<u>222,043</u>
<b>Total U.S. Department of Transportation</b>			<u>2,916,558</u>
<b>U.S. Environmental Protection Agency</b>			
<i>Direct Programs:</i>			
- ARRA - Merced Center Brownfield	66.818	2B-00T16001-0	91,143
- Costco Parking Lot	66.818	BF-00T16701-0	60,287
Subtotal			<u>151,430</u>
<b>Total U.S. Environmental Protection Agency</b>			<u>151,430</u>
<b>U.S. Department of Energy</b>			
<i>Direct Programs:</i>			
- ARRA - Energy Efficiency Activities	81.128	DE-SC0001848	300,401
<b>Total U.S. Department of Energy</b>			<u>300,401</u>
<b>U.S. Department of Homeland Security</b>			
Federal Emergency Management Agency			
<i>Direct Programs:</i>			
- Staffing for Adequate Fire & Emergency	97.083	EMW-2005-FF-02158	14,400
Subtotal			<u>14,400</u>
<i>Passed through the California Emergency Management Agency:</i>			
Legislative Pre-Disaster Mitigation Grant	97.047	EMF-2010-PD-0001	66,973
Subtotal			<u>66,973</u>
<b>Total U.S. Department of Homeland Security</b>			<u>81,373</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 7,483,936</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards

**CITY OF MERCED**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2011**

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**1. REPORTING ENTITY**

The City of Merced (City) was incorporated in 1889 as a charter city. It has a council-manager form of government. The City Council is composed of six members-at-large elected to serve four-year terms, and the mayor who is elected to serve a two-year term. The City Council appoints the City Manager, City Attorney and Finance Officer. The financial reporting entity consists of: (1) the City; (2) organizations for which the City is financially accountable; and (3) organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The following entities are component units of the City:

- The City of Merced Redevelopment Agency
- The City of Merced Public Financing and Economic Development Authority

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the primary government's exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Accounting*

Funds received under the various grant programs have been recorded within the General, Special Revenue, Capital Projects, and Enterprise funds of the City. The City utilizes the modified accrual method of accounting for the General, Special Revenue and the Capital Projects funds and the accrual basis of accounting for the Enterprise funds. The accompanying schedule of expenditures of federal awards (schedule) is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, and Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the presentation 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 financial assistance programs of the City. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of California is included in the schedule.

The schedule was prepared only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

**3. RELATIONSHIP TO FINANCIAL STATEMENTS**

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the City's financial statements. Federal award revenues are reported principally in the City's financial statements as intergovernmental revenues in the General, Special Revenue, Capital Projects and Enterprise funds.

**CITY OF MERCED**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2011**

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**4. PASS-THROUGH ENTITIES' IDENTIFYING NUMBER**

When federal awards were received from a pass-through entity; the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity.

**CITY OF MERCED**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2011

**Section 1**

<u>Financial Statements</u>	<u>Summary of Auditor's Results</u>
1. Type of auditor's report issued:	Unqualified
2. Internal controls over financial reporting:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified not considered to be material weaknesses?	None Reported
3. Noncompliance material to financial statements noted?	No

Federal Awards

1. Internal control over major programs:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified not considered to be material weaknesses?	None Reported
2. Type of auditor's report issued on compliance for major programs:	Unqualified for all major programs.
3. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?	No
4. Identification of major programs:	

<u>CFDA Number</u>	<u>Grantor's Number</u>	<u>Program Title</u>
14.239	M07-MC060227	HOME Investment Partnership Act
14.239	M08-MC060227	HOME Investment Partnership Act
14.239	M-09-MC-060227	HOME Investment Partnership Act
14.239	M-10-MC-060227	HOME Investment Partnership Act
16.710	2008CKWX0636	Secure Our Schools
16.710	2009CKWX0650	Secure Our Schools
16.710	2009RKWX0128	ARRA - COPS Hiring Recovery Program

**CITY OF MERCED**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2011

4. Identification of major programs (continued):

<b>CFDA Number</b>	<b>Grantor's Number</b>	<b>Program Title</b>
Highway Planning and Construction Cluster		
20.205	ESPL-5085(19)	ARRA - 16th Street Overlay
20.205	ESPL-5085(20)	ARRA - Central Merced Reconstruction - 18th Street
Highway Safety Cluster		
20.600	AL10110	DUI Enforcement & Awareness Program
20.600	AL1150	DUI Enforcement & Awareness Program
20.600	AL0834	AVOID the 10 DUI Campaign
20.600	AL11101	AVOID the 11 DUI Campaign
66.818	BF-00T16701-0	Costco Parking Lot
66.818	2B-00T16001-0	ARRA - Merced Center Brownfield
81.128	DE-SC0001848	ARRA - Energy Efficiency Activities

Federal Awards

Summary of Auditor's Results

- |   |           |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs?       | \$300,000 |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530? | Yes       |

**Section 2**

Financial Statement Findings

No financial statement findings were noted for the year ended June 30, 2011

**Section 3**

Federal Award Findings and Questioned Costs

No findings or questioned costs were noted on the City's major programs for the year ended June 30, 2011

**Section 4**

Prior Year Findings and Questioned Costs

No findings or questioned costs were noted on the City's major programs for the year ended June 30, 2010.