

City of Merced

Merced, California

Single Audit Report

For the year ended June 30, 2013

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CITY OF MERCED
Single Audit Report
For the year ended June 30, 2013

Table of Contents

	<u>Page</u>
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	1-2
Independent Auditor's 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	3-4
Schedule of Expenditures of Federal Awards	5-6
Notes to Schedule of Expenditures of Federal Awards.....	7-8
Schedule of Findings and Questioned Costs	9-10

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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, 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 Merced (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 16, 2014.

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 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 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.

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.

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

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.

A handwritten signature in cursive script that reads "Gallina LLP".

Roseville, California
January 16, 2014



INDEPENDENT AUDITOR'S 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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Merced'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 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 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 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, 2013.

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

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 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 accompanying 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, 2013, and have issued our report thereon dated January 16, 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 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. 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 Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.



Roseville, California
January 16, 2014

CITY OF MERCED
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development			
<i>Direct Programs:</i>			
CDBG - Entitlement Grants Cluster			
- Community Development Block Grant (CDBG)	14.218	B-11-MC-06-0044	\$ 785,304
- Community Development Block Grant (CDBG)	14.218	B-12-MC-06-0044	712,733
Subtotal			1,498,037
CDBG - State's Program and Non-Entitlement Grants in Hawaii			
- Neighborhood Stabilization Program	14.218	B-11-MN-06-0012	804,232
Subtotal			804,232
<i>Passed through California Department of Housing and Community</i>			
HOME Investment Partnership Program			
- HOME Investment Partnership Act	14.239	M-09-MC-060227	328,012
- HOME Investment Partnership Act	14.239	M-10-MC-060227	551,620
- HOME Investment Partnership Act	14.239	M11-MC060227	498,848
- HOME Investment Partnership Act	14.239	M12-MC060227	17,084
Subtotal			1,395,564
- Sustainable Communities Regional Planning Grant Program	14.703	SC360080-11-06	122,639
Total U.S. Department of Housing and Urban Development			3,820,472
U.S. Department of Justice			
<i>Direct Programs:</i>			
- ARRA - COPS Hiring Recovery Program (CHRP)	16.710	2009RKWX0128	55,142
- Secure Our Schools	16.710	2008CKWX0636	36,432
- Secure Our Schools	16.710	2009CKWX0650	8,506
- Secure Our Schools	16.710	2011CKWX0025	70,782
Subtotal			170,862
- Justice Assistance Grant	16.738	2009-DJ-BX-0878	10,873
- Justice Assistance Grant	16.738	2010-DJ-BX-0436	9,479
- Justice Assistance Grant	16.738	2011-DJ-BX-2459	14,715
- Justice Assistance Grant	16.738	2012-DJ-BX-1100	39,688
Subtotal			74,755
- ARRA - Justice Assistance Grant	16.804	2009-SB-B9-2673	130,119
Total U.S. Department of Justice			375,736
U.S. Department of Transportation			
Federal Aviation Administration			
<i>Direct Programs:</i>			
- Airport Improvement Program	20.106	3-06-0152-19	14,139
- Airport Improvement Program	20.106	3-06-0152-20	110,438
Subtotal			124,577

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, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grantor's Number	Expenditures
U.S. Department of Transportation (continued)			
<i>Passed through California Department of Transportation:</i>			
- Highway Planning and Construction Cluster			
- CMAQ- Hybrid Vehicles	20.205	CML-5085(27)	\$ 434,688
- Black Rascal Bike Path	20.205	CML-5085(28)	27,176
- Bear Creek Bike Path	20.205	CML-5085(29)	7,640
- CMAQ- Hybrid Vehicles	20.205	CML-5085(30)	96,597
- South/Central Bike Path	20.205	CML-5085(32)	71,121
- Traffic Signal Synchronization	20.205	CML-5085(35)	1,827
Total Highway Planning and Construction Cluster			639,049
<i>Passed through California Office of Traffic Safety:</i>			
- Highway Safety Cluster			
- DUI Enforcement & Awareness Program	20.600	20236	19,517
- AVOID the DUI Campaign	20.608	20238	30,526
- DUI Enforcement & Awareness Program	20.600/20.608	PT1346	36,283
- AVOID the DUI Campaign	20.608	AL1327	18,544
Total Highway Safety Cluster			104,870
Total U.S. Department of Transportation			868,496
U.S. Department of Energy			
<i>Direct Programs:</i>			
- ARRA - Energy Efficiency Activities	81.128	DE-SC0001848	36,000
Total U.S. Department of Energy			36,000
U.S. Department of Homeland Security			
Federal Emergency Management Agency			
<i>Direct Programs:</i>			
- Assistance to Firefighter Grant	97.044	EMW-2010-FO-03204	13,711
- Assistance to Firefighter Grant	97.044	EMW-2011-FO-02131	260,834
Subtotal			274,545
<i>Passed through the California Emergency Management Agency:</i>			
- Legislative Pre-Disaster Mitigation Grant	97.047	EMF-2010-PD-0001	52,767
Total U.S. Department of Homeland Security			327,312
Total Expenditures of Federal Awards			\$ 5,428,016

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, 2013

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 Public Financing and Economic Development Authority
- The City of Merced Parking 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 General, Special Revenue and Capital Projects funds and accrual basis of accounting for Enterprise funds. The accompanying Schedule of Expenditures of Federal Awards 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 of Expenditures of Federal Awards 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 of Expenditures of Federal Awards.

The Schedule of Expenditures of Federal Awards was prepared only from accounts of various grant programs and, therefore, does not present 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, 2013

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.

5. OUTSTANDING LOANS OF FEDERAL FUNDS AT JUNE 30, 2013

The City administers federal award programs that fund revolving loans. The principal and interest payments collected are returned to the programs. The federal government has imposed certain continuing compliance requirements with respect to the loans under the Community Development Block Grants/Entitlement Grants (CDBG), HOME Investment Partnership Program, and Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii. In accordance with Subpart B, Section 205 of the Office of Management and Budget Circular A-133, the City has reported the prior year loans that have continuing compliance requirements as of June 30, 2013, along with the values of total outstanding including accrued interest and new loans made during the current fiscal year in the SEFA.

The following is a summary of the loan programs maintained by the City and their balances at June 30, 2013:

Program Title	CFDA Number	Amount Outstanding	Prior Year Loans with Continuing Compliance Requirements	New Loans
Community Development Block Grants/ Entitlement Grants	14.218	\$ 5,545,630	\$ 5,545,630	\$ -
HOME Investment Partnership Program	14.239	11,460,212	11,460,212	-
Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	14.228	1,783,686	1,719,324	64,362
		<u>\$ 18,789,528</u>	<u>\$ 18,725,166</u>	<u>\$ 64,362</u>

CITY OF MERCED
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section 1

Financial Statements

Summary of Auditor's Results

- | | |
|--|---------------|
| 1. Type of auditor's report issued: | Unmodified |
| 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: | Unmodified 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: | |

CFDA Number	Grantor's Number	Program Title
CDBG - Entitlement Grants Cluster		
14.218	B-11-MC-06-0044	Community Development Block Grant (CDBG)
14.218	B-12-MC-06-0044	Community Development Block Grant (CDBG)
HOME - Home Investment Partnership Program		
14.239	M-09-MC-060227	Home Investment Partnership Act
14.239	M-10-MC-060227	Home Investment Partnership Act
14.239	M11-MC060227	Home Investment Partnership Act
14.239	M12-MC060227	Home Investment Partnership Act

CITY OF MERCED
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

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, 2013.

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, 2013.

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, 2012.