

**CITY OF MCKINNEY, TEXAS**

**FEDERAL SINGLE AUDIT REPORTS**

**YEAR ENDED SEPTEMBER 30, 2011**

DRAFT

# CONTENTS

Page

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 <i>Government Auditing Standards</i>	1
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program, on Internal Control Over Compliance in Accordance with OMB Circular A-133, and on Schedule of Expenditures of Federal Awards	3
Schedule of Findings and Questioned Costs	5
Summary of Prior Audit Findings	8
Schedule of Expenditures of Federal Awards	9
Notes to Schedule of Expenditures of Federal Awards	10

DRAFT



**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**

The Honorable Mayor and City Council  
City of McKinney, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of McKinney, Texas (the City), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 1, 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 opinions 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 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.

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.

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*.

City of McKinney, Texas

Page 2

We noted certain matters that we reported to management of the City, in a separate letter dated March 1, 2012

This report is intended solely for the information and use of the audit committee, management, 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.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
March 1, 2012

DRAFT



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

The Honorable Mayor and City Council  
City of McKinney, Texas

Compliance

We have audited the City of McKinney, Texas (the City)'s 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 September 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 of 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 September 30, 2011.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the 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 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 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.

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, business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of McKinney as of and for the year ended September 30, 2011 and have issued our report dated March 1, 2012. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of McKinney's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of City Council, management, 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.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P

Dallas, Texas  
March 1, 2012

**CITY OF MCKINNEY, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**I. Summary of the Auditor's Results:**

Financial Statements

- a. An unqualified opinion was issued on the financial statements.
- b. Internal control over financial reporting:
  - Material weakness(es) identified?  Yes  No
  - Significant deficiency(ies) identified that are not considered a material weakness?  Yes  No
- c. Noncompliance material to financial statements noted  Yes  No

Major Programs

- d. Internal control over major programs:
  - Material weakness(es) identified?  Yes  No
  - Significant deficiency (ies) identified that are not considered a material weakness?  Yes  None reported
- e. An unqualified opinion was issued on compliance for major programs.
- f. Any audit findings disclosed that were required to be reported under Section 510(a) or OMB Circular A-133.  Yes  No
- g. Identification of major programs:

<u>Program/Cluster Name</u>	<u>CFDA #</u>
Watershed Protection and Flood Prevention - ARRA	10.904
CDBG - Entitlement Grants Cluster:	
Community Development Block Grant	14.218
Community Development Block Grant - ARRA	14.253
Airport Improvement Program	20.106
State Energy Program - ARRA	81.041
Energy Efficiency & Conservation Block Grant - ARRA	81.128

**CITY OF MCKINNEY, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

- h. The dollar threshold used to distinguish between type  
A and type B programs. \$313,707
- i. Auditee qualified as a low-risk auditee.  Yes  No

**II. Findings Relating to the Financial Statements Which Are Required To Be Reported in  
Accordance with *Generally Accepted Government Auditing Standards*.**

**NONE**

DRAFT



**CITY OF MCKINNEY, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.f Above**

**NONE**

DRAFT

**CITY OF MCKINNEY, TEXAS  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**IV. Summary of Prior year Findings.**

**None**

DRAFT

**CITY OF MCKINNEY, TEXAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF ENERGY</b>			
Direct Funding			
Energy Efficiency and Conservation Block Grant - ARRA	81.128	SC0001875	\$ 556,241
Passed through the State Energy Conservation Office			
State Energy Program - Solar Array Fire Station #6 - ARRA	81.041	DE-EE000116	266,820
Passed through the State Energy Conservation Office and North Texas Council of Governments			
State Energy Program - Transportation Energy Efficiency Alternative Fuels and Technology - ARRA	81.041	ARRA-CFNT-09	35,700
Total State Energy Program			<u>302,520</u>
<b>TOTAL U.S. DEPARTMENT OF ENERGY</b>			<u>858,761</u>
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>			
Direct Funding			
Brownfield Hazardous	66.818	BF-00F16601-0	6,156
Brownfield Petroleum	66.818	BF-00F16201-0	11,842
<b>TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY</b>			<u>17,998</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Direct Funding			
Early Retiree Reinsurance Program (ERRP)	93.546	n/a	17,596
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<u>17,596</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
Passed through the City of Plano			
Justice Assistance Program	16.738	2010-DJ-BX-1029	8,861
Passed through Office of the Governor, Criminal Justice Division			
Bullet Proof Vest Reimbursement	16.607	n/a	5,850
<b>TOTAL DEPARTMENT OF JUSTICE</b>			<u>14,711</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Direct Funding			
FAA Grant - Replacement Runway	20.106	8XXAV038	6,541,422
FAA Grant - Replacement Control Tower	20.106	8XXAV039	1,287,831
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>			<u>7,829,253</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Direct Funding			
Urban Area Security Initiative (UASI)	97.008	2010-SS-T0-0008	58,000
Urban Area Security Initiative (UASI)	97.008	HS-050240	85,202
Total Urban Area Security Initiative (UASI)			<u>143,202</u>
FEMA- Direct Funding - Hurricane Gustav	97.036	FEMA-3294-DR_EM_TX	430
AFG Flame Sim	97.044	EMW-2010-F0-02930	27,767
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>			<u>171,399</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Direct Funding			
Rehabilitation of 1A, 2B & 17 - Watershed Protection and Flood Prevention - ARRA	10.904	69-7442-5-709	957,746
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>957,746</u>
<b>U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>			
Direct Funding			
Community Development Block Grant	14.218	B-10-MC-48-0043	444,101
Community Development Block Grant-ARRA	14.253	B-09-MY-48-0043	105,328
Total CDBG - Entitlement Grants Cluster			<u>549,429</u>
Homebuyer Assistance	14.239	M-09-SG-48-0100/1001333	40,000
<b>TOTAL U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>			<u>589,429</u>
<b>TOTAL EXPENDITURES</b>			<u>\$ 10,456,893</u>

**CITY OF MCKINNEY, TEXAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**1. GENERAL**

The accompanying schedule of expenditures of federal awards presents the activity of all applicable federal awards of the City of McKinney, Texas (the City). The City's reporting entity is defined in Note 1 to the City's basic financial statements.

**2. BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards is presented using modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements. Grants are generally accounted for in special revenue funds, except for the FAA grants, which are recorded in the McKinney Airport Development Corporation, a discretely presented component unit which is accounted for as an enterprising activity.

**3. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the accompanying schedule may not agree with amounts reported in the related federal financial reports since the City used the modified accrual basis of accounting in preparing the schedule and the cash basis in preparing the federal financial reports.

**4. CONTINGENCIES**

The City participates in several grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by grantor agencies. Therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectability of any related receivable at September 30, 2011 may be impaired. In the opinion of the management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

**5. NON-CASH ASSISTANCE**

During the fiscal year ended September 30, 2011 the City did not receive any non-cash federal assistance. At September 30, 2011 the City did not have any outstanding loans due to any federal agencies.