

CITY OF NEDERLAND, TEXAS

SINGLE AUDIT REPORT

FOR FISCAL YEAR
SEPTEMBER 30, 2015

CITY OF NEDERLAND, TEXAS
SINGLE AUDIT REPORT
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J.R. Edwards & Associates, LLC

Certified Public Accountants

March 28, 2016

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 GOVERNMENTAL AUDITING STANDARDS

The Honorable Mayor and City Council
City of Nederland, Texas

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Nederland, Texas (the "City"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 28, 2016.

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 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.

J.R. Edwards & Associates, LLC

J.R. Edwards & Associates, LLC

Certified Public Accountants

March 28, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Honorable Mayor and City Council
City of Nederland, Texas

Report on Compliance for Each Major Program

We have audited City of Nederland, Texas' (the "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 September 30, 2015. 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 September 30, 2015.

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 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 the City, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 28, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. 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 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 basic 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 basic financial statements or to the basic 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.

J.R. Edwards & Associates, LLC

CITY OF NEDERLAND, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY			
<u>Pass-through Texas Department of Public Safety:</u>			
Homeland Security Grant Program	96.067	EMW-2013-SS-00045	\$ 1,876
Total Passed Through Texas Department of Public Safety			<u>1,876</u>
<u>Direct Programs:</u>			
Port Security Grant Program	97.056	EMW-2012-PU-00048	<u>(7,889)</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>(6,013)</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<u>Pass-through Texas General Land Office:</u>			
Community Development Block Grant	14.228	12-530-000-6784	693,479
Total Passed Through Texas General Land Office			<u>693,479</u>
<u>Pass-through Texas Department of Agriculture:</u>			
Community Development Block Grant	14.228	713349	263,661
Total Passed Through Texas Department of Agriculture			<u>263,661</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>957,140</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
<u>Pass-through Texas State Library and Archives Commission:</u>			
Grants to States	45.310	LS-00-13-0044-13	706
Total Passed Through Texas State Library and Archives Commission			<u>706</u>
TOTAL INSTITUTE OF MUSEUM AND LIBRARY SERVICES			<u>706</u>
U.S. DEPARTMENT OF JUSTICE			
<u>Direct Programs:</u>			
Bulletproof Vest Partnership Grant Act of 1998	16.067		2,063
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>2,063</u>
TOTAL FEDERAL AWARDS			<u>\$ 953,896</u>

CITY OF NEDERLAND, TEXAS
NOTES TO EXPENDITURES OF FEDERAL AWARDS SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Note A - Presentation of Federal Awards

Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Capital Projects Funds are used to account for all resources used for the acquisition or construction of capital facilities. Federal financial assistance generally is accounted for in a Special Revenue Fund. GASB Statement No. 54 allows grants used for the construction or acquisition of capital assets to be accounted for in the Capital Projects Funds. Generally, used balances are returned to the grantor at the close of specified project periods.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental fund types are accounted for using a current financial resources measurement focus. All federal grant funds were accounted for in the Special Revenue Fund, a component of the governmental fund type, due to the implementation of GASB Statement No. 54. Capital Projects Funds also are a component of the government fund type. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for the governmental funds and agency funds. This basis of accounting recognizes revenue in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

CITY OF NEDERLAND, TEXAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

A. Summary of Auditor's Results

1. Financial Statements

Unmodified

Type of auditor's report issued:

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiencies identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiencies identified? Yes 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 Circular A-133? Yes No

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

Auditee qualified as low-risk auditee? Yes No

Identification of federal major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development block Grant - GLO
14.228	Community Development Block Grant - TDA

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

CITY OF NEDERLAND, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

Prior Year Finding
NONE