

CITY OF DENTON, TEXAS
SINGLE AUDIT REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2016

CITY OF DENTON, TEXAS

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PATILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' 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 the City Council
City of Denton, Texas

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Denton, Texas (the "City") as of and for the year ended September 30, 2016, 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 2, 2017.

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 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 *material* weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 2, 2017



PATILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL AND STATE PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE AND
THE STATE OF TEXAS UNIFORM GRANT MANAGEMENT STANDARDS**

The Honorable Mayor and
Members of the City Council
City of Denton, Texas

Report on Compliance for Each Major Federal and State Program

We have audited City of Denton, Texas' compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* and the state of Texas *Uniform Grant Management Standards* ("UGMS") that could have a direct and material effect on each of City of Denton, Texas' major federal and state programs for the year ended September 30, 2016. City of Denton, Texas' major federal and state programs are identified in the summary of auditors' 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 and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Denton, Texas' major federal and state 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; the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the state of Texas *Uniform Grant Management Standards*. Those standards, the Uniform Guidance, and the Uniform Grant Management Standards 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 and state program occurred. An audit includes examining, on a test basis, evidence about City of Denton, Texas' 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 and state program. However, our audit does not provide a legal determination of City of Denton, Texas' compliance.

Opinion on Each Major Federal and State Program

In our opinion, City of Denton, Texas 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 and state programs for the year ended September 30, 2016.

Report on Internal Control over Compliance

Management of City of Denton, Texas 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 City of Denton, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the Uniform Grant Management Standards, 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 City of Denton, Texas' 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 or state 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 or state 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 or state 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 and Uniform Grant Management Standards. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal and State Awards Required by the Uniform Guidance and UGMS

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 Denton, Texas as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise City of Denton, Texas' basic financial statements. We issued our report thereon dated March 2, 2017, 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 and state awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance) and UGMS 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 and state awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 2, 2017

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CITY OF DENTON, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Grant I.D. Number	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
<u>Federal Awards</u>				
<u>U.S. Department of Agriculture</u>				
<u>Passed through Texas Department of Health and Human Services</u>				
2014 Farmers Market Promotion Program	14-FMPPX-TX-0160	10.168	\$ 43,378	\$ -
Summer Food Services Grant	061-1002	10.559	159,933	-
Total U.S. Department of Agriculture			203,311	-
<u>U.S. Department of Housing and Urban Development</u>				
<u>Direct Awards</u>				
Community Development Block Grant	B-13-MC-48-0036	14.218	53,582	-
Community Development Block Grant	B-14-MC-48-0036	14.218	160,750	2,829
Community Development Block Grant	B-15-MC-48-0036	14.218	340,286	74,056
Community Development Block Grant	B-16-MC-48-0036	14.218	22,220	-
Subtotal - CFDA #14.218			576,838	76,885
Home Investment Partnerships Program	M-10-MC-48-0223	14.239	87,853	-
Home Investment Partnerships Program	M-13-MC-48-0223	14.239	8,829	4,000
Home Investment Partnerships Program	M-14-MC-48-0223	14.239	177,962	7,000
Home Investment Partnerships Program	M-15-MC-48-0223	14.239	143,831	-
Home Investment Partnerships Program	M-16-MC-48-0223	14.239	27,253	-
Subtotal - CFDA #14.239			445,728	11,000
<u>Passed Through Texas Department of Housing and Community Affairs</u>				
2014-15 Emergency Solution Grant	42140002053	14.231	1,278	1,278
2015-16 Emergency Solution Grant	41250002299	14.231	597,056	465,467
Total Texas Department of Housing and Community Affairs			598,334	466,745
Total U.S. Department of Housing and Urban Development			1,620,900	554,630
<u>U.S. Department of Justice</u>				
<u>Direct Awards</u>				
U.S. Marshals Violent Offenders Task Force	VOTF	16.000	14,626	-
Organized Crime Drug Enforcement	SW-TXE-279H	16.000	11,232	-
Subtotal - CFDA #16.000			25,858	-
2015 Byrne Justice Assistance Grant	2015-DJ-BX-0716	16.804	23,048	-
Federal Equitable Sharing	TX0610200	16.922	8,431	-
Total U.S. Department of Justice			57,337	-

CITY OF DENTON, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Grant I.D. Number	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
<u>U.S. Department of Transportation</u>				
<u>Passed through Texas Department of Transportation</u>				
STEP-Comprehensive Grant	2016-DentonPD-S-IYG-0043	20.600	\$ 77,767	\$ -
Traffic Signal Construction Grant	0134-09-063	20.205	81,768	-
Traffic Signal Construction Grant	0134-09-034	20.205	79,962	-
Total Texas Department of Transportation			239,497	-
<u>Passed through North Central Texas Council of Governments</u>				
Traffic Incident Management Equipment	TRN2125	20.205	6,840	-
Total North Central Texas Council of Governments			6,840	-
Subtotal - CFDA #20.205			168,570	-
Total U.S. Department of Transportation			246,337	-
<u>National Endowment for the Humanities</u>				
<u>Passed through Texas State Library and Archives Commission (TSLAC)</u>				
Interlibrary Loan Program (ILL)	LS 00-15-0044-15	45.310	30,839	-
Total National Endowment for the Humanities			30,839	-
<u>U.S. Department of Health and Human Services</u>				
<u>Passed through Texas Health and Human Services Services Commission</u>				
Ambulance Services - Uncompensated Care Cost	000083801	93.778	890,502	-
Total U.S. Department of Health and Human Services			890,502	-
<u>U.S. Department of Homeland Security</u>				
<u>Passed through Texas A&M Engineering Extension Office</u>				
National Urban Search & Rescue Response System	47-100769	97.025	229,072	-
<u>Passed through Texas Department of Public Safety</u>				
Disaster Grants - Public Assistance	PA-06-TX-4223	97.036	129,111	-
Emergency Management Performance Grant	16TX-EMPG-0122	97.042	47,328	-
2015 State Homeland Security Program	EMW-2015-SS-00080	97.067	2,352	-
2014 State Homeland Security Program	EMW-2014-SS-00029	97.067	112,646	-
Subtotal - CFDA #97.067			114,998	-
Total Texas Department of Public Safety			291,437	-
Total U.S. Department of Homeland Security			520,509	-
Total Expenditures of Federal Awards			\$ 3,569,735	\$ 554,630

CITY OF DENTON, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Pass-Through Grantor/ Program Title	Grant I.D. Number	Expenditures	Passed Through to Subrecipients
<u>State Awards</u>			
<u>Texas Department of Transportation</u>			
Airport Maintenance Grant	42M1618DNT0	\$ 50,000	\$ -
Traffic Signal Construction Grant	0134-09-063	20,442	-
RTR - Mayhill Road From IH35 East to US 380	0918-46-246	880,230	-
RTR - Bonnie Brae Road - From IH35 East to US 377	0918-46-245	398,863	-
RTR - ITS Communication Trunk Lines	0918-46-244	15,119	-
Subtotal		<u>1,294,212</u>	<u>-</u>
Utility relocation	U-14297	<u>72,440</u>	<u>-</u>
Easement reimbursement	0196-01-100	<u>277,215</u>	<u>-</u>
Total Texas Department of Transportation		<u>1,714,309</u>	<u>-</u>
<u>Texas Historical Commission</u>			
NPS Historic Preservation Fund Grant	CLG-TX-16-033	<u>3,158</u>	<u>-</u>
Total Texas Historic Commission		<u>3,158</u>	<u>-</u>
<u>Office of the Texas Attorney General</u>			
Chapter 59 Asset Forfeitures		<u>68,784</u>	<u>-</u>
Total Office of the Texas Attorney General		<u>68,784</u>	<u>-</u>
<u>Texas A&M Engineering Extension Office</u>			
Urban Search and Rescue Response System	47-100769	<u>104,712</u>	<u>-</u>
Total Texas A&M Engineering Extension Office		<u>104,712</u>	<u>-</u>
<u>Texas Department of Housing and Community Affairs</u>			
Amy Young Barrier Removal Program	1002007	<u>42,213</u>	<u>-</u>
Total Texas Department of Housing and Community Affairs		<u>42,213</u>	<u>-</u>
<u>Texas Department of State Health Services</u>			
Tobacco Prevention Grant	120	<u>6,900</u>	<u>-</u>
Total Texas Department of State Health Services		<u>6,900</u>	<u>-</u>
Total Expenditures of State Awards		\$ <u>1,940,076</u>	\$ <u>-</u>
Total Federal and State Financial Assistance Expended		\$ <u>5,509,811</u>	\$ <u>554,630</u>

CITY OF DENTON, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

1. GENERAL

The accompanying schedule of expenditures of federal and state awards presents the activity of all applicable federal and state awards of the City of Denton, Texas. The City's reporting entity is defined in Note I to the City's basic financial statements. Federal and state awards received directly from federal and state agencies as well as federal and state awards passed through other government agencies are included in the respective schedule.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal and state awards is presented using modified accrual basis of accounting, which is described in Note I to the City's basic financial statements.

3. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Grant expenditures reports as of September 30, 2016, which have been submitted to grantor agencies will, in some cases, differ slightly from amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of year-end accruals. The reports will agree at termination of the grant as the discrepancies noted are timing differences.

4. INDIRECT COSTS

The City has not elected to use the 10% de minimis indirect cost rate as allowed in the Uniform Guidance, Section 414.

CITY OF DENTON, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Section I: Summary of the Auditors' Results

Financial Statements:

An unmodified opinion was issued on the financial statements.

Internal control over financial reporting:

Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered a material weakness?	None reported

Noncompliance material to financial statements noted?	No
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Federal and State Awards:

Internal control over major programs:

Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered a material weakness?	None reported

Type of auditors' report issued on compliance for major federal and state programs	Unmodified
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Any audit findings disclosed that were required to be reported in accordance with 2 CFR 200.516(a) or the Uniform Grant Management Standards?	None
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Identification of major federal and state programs:

Federal:

14.231	Emergency Solutions Grant
93.778	Ambulance Services - Uncompensated Care Cost

State:

RTR Transportation Projects

The dollar threshold used to distinguish between type A and type B federal programs.	\$750,000
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The dollar threshold used to distinguish between type A and type B state programs.	\$300,000
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Low risk auditee statement	The City was classified as a low-risk auditee in the context of 2 CFR 200 and was not classified as a low-risk auditee in the context of the state of Texas Uniform Grant Management Standards.
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CITY OF DENTON, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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

None

Findings and Questioned Costs for Federal and State Awards

None

Summary of Prior Year Findings

None