

**CITY OF KINGS MOUNTAIN  
NORTH CAROLINA**

**COMPLIANCE LETTERS**

**FOR THE YEAR ENDED JUNE 30, 2011**

**MARTIN ♦ STARNES  
& ASSOCIATES, CPAs, P.A.**

---

*"A Professional Association of Certified Public Accountants and Management Consultants"*

# CITY OF KINGS MOUNTAIN, NORTH CAROLINA

## COMPLIANCE LETTERS FOR THE YEAR ENDED JUNE 30, 2011

### TABLE OF CONTENTS

	<u>Page</u>
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>	1-2
Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 And The State Single Audit Implementation Act	3-5
Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major State Program And Internal Control Over Compliance In Accordance With Applicable Sections of OMB Circular A-133 And The State Single Audit Implementation Act	6-8
Schedule of Findings and Questioned Costs	9-10
Summary Schedule of Prior Year Findings	11
Schedule of Federal and State Awards	12-13

# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

*"A Professional Association of Certified Public Accountants and Management Consultants"*

## **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 Kings Mountain  
Kings Mountain, North Carolina

We have audited the basic financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kings Mountain, North Carolina, as of and for the year ended June 30, 2011, not presented here, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 15, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our auditors audited the financial statements of the City of Kings Mountain ABC Board, as described in our report on the City of Kings Mountain's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the City of Kings Mountain ABC Board and the Tourism Development Authority Board were not audited in accordance with *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

Management of the City of Kings Mountain is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Kings Mountain'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 of Kings Mountain'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 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 of Kings Mountain'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 the City Council, management, federal and State awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
November 15, 2011

# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

*"A Professional Association of Certified Public Accountants and Management Consultants"*

## **Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 And The State Single Audit Implementation Act**

### **Independent Auditors' Report**

To the Honorable Mayor and  
Members of the City Council  
City of Kings Mountain  
Kings Mountain, North Carolina

#### **Compliance**

We have audited the compliance of the City of Kings Mountain, North Carolina, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The City of Kings Mountain'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 of Kings Mountain's management. Our responsibility is to express an opinion on the City of Kings Mountain'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* and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 of Kings Mountain'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 of Kings Mountain's compliance with those requirements.

In our opinion, the City of Kings Mountain complied, in all material respects, with the 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 of Kings Mountain 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 of Kings Mountain's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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, non-compliance 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 non-compliance 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 the 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 weakness. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 Kings Mountain, North Carolina, as of and for the year ended June 30, 2011, which collectively comprise the City of Kings Mountain, North Carolina's basic financial statements, and have issued our report thereon dated November 15, 2011 which contained an unqualified opinion on those financial statements. We did not audit the financial statements of the City of Kings Mountain, North Carolina ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us and, our opinion, insofar as it relates to the amounts included for the City of Kings Mountain, North Carolina ABC Board is based solely on the report of the other auditors. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise City of Kings Mountain, North Carolina's basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act 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 other 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 Expenditure of Federal and State Awards 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 the City Council, management, 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.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
November 15, 2011

# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

## **Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major State Program And Internal Control Over Compliance In Accordance With Applicable Sections Of OMB Circular A-133 And The State Single Audit Implementation Act**

### **Independent Auditors' Report**

To the Honorable Mayor and  
Members of the City Council  
City of Kings Mountain  
Kings Mountain, North Carolina

#### **Compliance**

We have audited the compliance of the City of Kings Mountain, North Carolina, with the types of compliance requirements described in applicable sections of OMB Circular A-133 and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of its major State programs for the year ended June 30, 2011. The City of Kings Mountain's major State 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 State programs is the responsibility of the City of Kings Mountain's management. Our responsibility is to express an opinion on the City of Kings Mountain'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 applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of *OMB Circular A-133*, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City of Kings Mountain'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 of Kings Mountain's compliance with those requirements.

In our opinion, the City of Kings Mountain complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2011.

## **Internal Control Over Compliance**

The management of the City of Kings Mountain is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to State programs. In planning and performing our audit, we considered the City of Kings Mountain's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133, as described in the Audit Manual for Governmental Auditors in North Carolina, and the State Single Audit Implementation Act, 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, non-compliance with a type of compliance requirement of a 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 State program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the 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 weakness. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 Kings Mountain, North Carolina, as of and for the year ended June 30, 2011, which collectively comprise the City of Kings Mountain, North Carolina's basic financial statements, and have issued our report thereon dated November 15, 2011 which contained an unqualified opinion on those financial statements. We did not audit the financial statements of the City of Kings Mountain, North Carolina ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us and, our opinion, insofar as it relates to the amounts included for the City of Kings Mountain, North Carolina ABC Board is based solely on the report of the other auditors. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise City of Kings Mountain, North Carolina's basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act 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 other 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 expenditure of federal and state awards 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 the City Council, management, State awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
November 15, 2011

# CITY OF KINGS MOUNTAIN, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

### 1. Summary of Auditors' Results

- A. An unqualified opinion was issued on the financial statements of the City of Kings Mountain, North Carolina.
- B. Our audit of the basic financial statements disclosed no significant deficiencies or material weaknesses in internal controls.
- C. Our audit of the basic financial statements disclosed no instances of non-compliance with laws, regulations, and the provisions of contracts and grant agreements that are material to the basic financial statements.
- D. Our audit of compliance with the types of compliance requirements applicable to the City's major programs disclosed no significant deficiencies or material weaknesses in internal controls over major programs.
- E. An unqualified opinion was issued on the City of Kings Mountain, North Carolina's compliance with the types of compliance requirements applicable to its major federal programs.
- F. An unqualified opinion was issued on the City of Kings Mountain, North Carolina's compliance with the types of compliance requirements applicable to its major State programs.
- G. Our audit disclosed no audit findings which related to federal and State awards.
- H. Major federal programs for the City of Kings Mountain, North Carolina for the fiscal year ended June 30, 2011 are:

<u>Program Name</u>	<u>CFDA#</u>
Community Development Block Grant	14.218

# CITY OF KINGS MOUNTAIN, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

- I. Major State programs for the City of Kings Mountain, North Carolina for the fiscal year ended June 30, 2011 are:

Powell Bill/DOT  
Clean Water Partners Infrastructure Program Grant

- J. The threshold for determining Type A programs for the City of Kings Mountain, North Carolina is \$300,000.

- K. The City of Kings Mountain, North Carolina did not qualify as a low risk auditee under Section .530 of Circular No. A-133.

### **2. Findings Related to the Audit of the Basic Financial Statements**

None

### **3. Findings and Questioned Costs Related to the Audit of Federal Awards**

None

### **4. Findings and Questioned Costs Related to the Audit of State Awards**

None

**CITY OF KINGS MOUNTAIN, NORTH CAROLINA**

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

None.

**CITY OF KINGS MOUNTAIN, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Grantor / Pass-through Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>	
		<u>Federal</u>	<u>State</u>
<b>Federal Awards:</b>			
<b>U.S. Department of Housing and Urban Development:</b>			
Passed-through N.C. Department of Commerce: Community Development Block Grant/State's Program	14.228	\$ 642,748	
<b>U.S. Department of Health and Human Services:</b>			
Passed-through Isothermal Planning and Development Commission: Special Programs for the Aging - Title III B Grants for Supportive Services and Senior Centers	93.044	48,405	
<b>U.S. Department of Health and Human Services:</b>			
Passed-through the N.C. Department of Insurance: Centers for Medicare & Medicaid Services Research, Demonstrations and Evaluations	93.779	4,777	
<b>Institute of Museum and Library Services:</b>			
Passed-through State Library of NC: Grants to States	45.310	59,173	
<b>Department of Homeland Security:</b>			
Passed through FEMA: Assistance to Firefighters Grant	97.044	10,430	
<b>U.S. Department of Transportation FHWA:</b>			
Passed-through the N.C. Department of Transportation: Highway Planning and Construction	20.205	<u>25,359</u>	
<b>Total Federal Awards</b>		<u>790,892</u>	
<b>State Awards:</b>			
<b>N.C. Department of Cultural Resources:</b>			
State Aid - Library			\$ 10,759
<b>N.C. Department of Aging:</b>			
Senior Center General Purpose			16,327
<b>N.C. Department of Transportation:</b>			
Powell Bill			327,077
<b>N.C. Department of Environment and Natural Resources:</b>			
Solid Waste Trust Fund - Cart Grant			100,000
<b>NC Rural Economic Development Center:</b>			
Clean Water Partners Supplemental: Clean Water Partners Infrastructure Program Grant			477,452
Building Reuse and Restoration Grant			258,756
Economic Infrastructure Program Grant			<u>75,402</u>
<b>Total State Awards</b>		<u>-</u>	<u>1,265,773</u>
<b>Total Federal and State Awards</b>		<u>\$ 790,892</u>	<u>\$ 1,265,773</u>

**CITY OF KINGS MOUNTAIN, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Notes to the Schedule of Expenditures of Federal and State Awards:**

**1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and State grant activity of the City of Kings Mountain and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, Non-Profit Organizations, and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Benefit payments are paid directly to recipients and are not included in the City's basic financial statements. However, due to the City's involvement in determining eligibility, they are considered federal awards to the City and are included on this schedule.