

CITY OF FLAGSTAFF, ARIZONA
SINGLE AUDIT ACT REPORTS
YEAR ENDED JUNE 30, 2016

**CITY OF FLAGSTAFF, ARIZONA
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members of the City Council
City of Flagstaff, Arizona
Flagstaff, Arizona

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 Flagstaff, Arizona (City), as of and for the year ended June 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 December 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 City'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.

Honorable Mayor and Members of the City Council
City of Flagstaff, Arizona

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 result of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Phoenix, Arizona
December 28, 2016



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AS
REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Mayor and Members of the City Council
City of Flagstaff, Arizona
Flagstaff, Arizona

Report on Compliance for Each Major Federal Program

We have audited the City of Flagstaff, Arizona's (City) compliance with the types of compliance requirements described in the *OMB 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, 2016. The City's major federal 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 of Flagstaff, Arizona 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, 2016.

Report on Internal Control Over Compliance

Management of 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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Honorable Mayor and Members of the City Council
City of Flagstaff, Arizona

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

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 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 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 the Uniform Guidance 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.



CliftonLarsonAllen LLP

Phoenix, Arizona
December 28, 2016

**CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X 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 2 CFR 200.516(a)? _____ yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.871	Housing Choice Voucher Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes _____ no

**CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2015-A: Accuracy of Aggregation of Financial Data Related to Impaired Assets and Insurance Proceeds

Condition: Certain activities of the City's multiple locations were not accurately reported in the City's financial reporting system. Specifically, the City was knowledgeable of certain asset impairments and related insurance proceeds related to activities at the City's public housing facility that were not reported in the City's financial reporting system.

Status: Corrected. No similar instances were noted in the current year.

2015-B: Timely and Accurate Reconciliation of Miscellaneous Receivables

Condition: Certain reconciliations of significant miscellaneous receivable accounts were not performed timely and accurately. Due to this oversight, a significant misstatement in miscellaneous receivable and revenue account balances was not identified prior to the audit.

Status: Corrected. No similar instances were noted in the current year.

2015-C: Discovery of Facts Subsequent to the Issuance of the Audit Report

Condition: Subsequent to the issuance of the City's audited financial statements as of June 30, 2015, dated December 30, 2015, City management identified an error in the originally issued report. Restricted net position for governmental activities in the government-wide statement of net position was not correctly stated, as much of the restricted net position was included in unrestricted net position. City management approached the auditor regarding the misstatement of restrictions and made the determination to reissue the financial statements.

Status: Corrected. No similar instances were noted in the current year.

**CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Contract/Grant Number	Award Amount	Expenditures	Subrecipients/ Pass-through
Department of Agriculture					
<i>Passed through Arizona State Forestry Division</i>					
Cooperative Forestry Assistance-Western Bark Beetle Initiative	10.664	WBBI 13-601	\$ 100,000	\$ 60,890	\$ -
Cooperative Forestry Assistance-Western Bark Beetle Initiative	10.664	WBBI 11-601	100,000	100,000	-
Total Department of Agriculture				160,890	-
Department of Commerce					
<i>Direct Programs:</i>					
Economic Adjustment Assistance-Business Accelerator & EOC	11.307	07-79-06817	4,000,000	521,834	-
Department of Housing and Urban Development					
<i>Direct Programs:</i>					
Community Development Block Grant 2013-2014	14.218	B-13-MC-04-0510	565,772	72,522	-
Community Development Block Grant 2014-2015	14.218	B-14-MC-04-0510	570,941	252,649	-
Community Development Block Grant 2015-2016	14.218	B-15-MC-04-0510	579,591	368,504	-
Disbursements to Sub-Recipients	14.218				218,892
Total CDBG Program Cluster				693,675	218,892
Public and Indian Housing	14.850	AZ006-00000115D	292,601	145,837	-
Public and Indian Housing	14.850	AZ006-00000116D	280,869	153,109	-
Public and Indian Housing	14.850	AZ006-00000215D	324,586	161,780	-
Public and Indian Housing	14.850	AZ006-00000216D	307,086	167,679	-
Total Public and Indian Housing				628,405	-
Public Housing Capital Fund	14.872	AZ20P00650113	348,130	126,740	-
Public Housing Capital Fund	14.872	AZ20P00650114	362,437	190,081	-
Public Housing Capital Fund	14.872	AZ20P00650115	357,680	83,846	-
Public Housing Capital Fund	14.872	AZ20P00650116	368,966	1,352	-
Total Public Housing Capital Fund				402,019	-
Section 8 Housing Choice Voucher	14.871	AZ006	3,703,477	3,566,851	-
Lower Income Housing Assistance Program - Section 8 Moderate Rehab	14.856	AZ006MRO001/ AZ006SRO001	78,992	78,990	-
<i>Passed through Arizona Department of Housing</i>					
Home Investment Partnership Program 2013	14.239	305-13	385,000	74,347	-
Home Investment Partnership Program 2015	14.239	120-15	266,871	155,415	-
Total HOME Program				229,762	-
Total Department of Housing and Urban Development				5,599,702	218,892
Department of Interior					
<i>Direct Programs:</i>					
National Park Service Conservation, Protection, Outreach and Education -Dispatch Services	15.954	P12AC10702	5,000	5,000	-
Reclamation Water Supply Program-Red Gap Ranch Feasibility Study	15.548	R12AP32025	300,000	11,032	-
Total Department of Interior				16,032	-

(Continued)

See accompanying notes to schedules of expenditures of federal awards.

CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2016

Federal Grantor/Passthrough Grantor/Program Title	Federal CFDA Number	Contract/Grant Number	Award Amount	Expenditures	Subrecipients/ Pass-through
Department of Justice					
Passed through State of Arizona					
Arizona Internet Crimes Against Children Training 2015	16.543	2012-MC-FX-K008	\$ 9,859	\$ 3,675	\$ -
Direct Programs:					
Edward Byrne Memorial Justice Assistance Grant Program FY14	16.738	2014-DJ-BX-1198	24,330	12,974	-
Edward Byrne Memorial Justice Assistance Grant Program FY15	16.738	2015-DJ-BX-0580	20,749	14,435	-
Total Justice Assistance Grant Program				27,409	-
Bulletproof Vest Partnership Program 2013	16.607	2013 BVP	24,453	8,704	-
Bulletproof Vest Partnership Program 2014	16.607	2014 BVP	15,440	15,440	-
Bulletproof Vest Partnership Program 2015	16.607	2015 BVP	15,440	15,440	-
Total Bulletproof Vest Partnership Program				39,584	-
Passed through Arizona Criminal Justice Commission					
Edward Byrne Memorial Justice Assistance Grant Program Cycle 29	16.803	DC-16-002	116,664	116,664	-
Total Department of Justice				187,332	-
Department of Transportation					
Direct Programs:					
Airport Improvement Program-AIP 37	20.106	AIP-3-04-0015-037-2013	270,000	103,506	-
Airport Improvement Program-AIP 38	20.106	AIP-3-04-0015-038-2015	293,500	12,286	-
Airport Improvement Program-AIP 39	20.106	AIP-3-04-0015-039-2015	500,000	16,229	-
Total Airport Improvement Program				132,021	-
Passed through Arizona Department of Transportation:					
Highway Planning and Construction - 2011 STP	20.205	JPA11-085	105,000	208,489	-
Highway Planning and Construction - 2015 PL	20.205	JPA11-085	92,899	4,438	-
Highway Planning and Construction - 2016 PL	20.205	JPA11-085	110,675	110,675	-
Highway Planning and Construction - 2016 SPR	20.205	JPA11-085	124,030	124,030	-
Regional Trails Program-FUTS Sign Project	20.219	PR11-049	227,777	69,040	-
Passed through Arizona State Parks:					
Picture Canyon Trail Improvements	20.219	IGA 11-049-RTP 471510	74,446	316	-
Total Highway Planning and Construction Cluster				516,988	-
Passed through Arizona Department of Transportation:					
Highway Planning and Construction - FTA 5304 Transit Spine Study	20.505	JPA11-085	375,000	186,649	-
Public Transportation Research-2015 FTA(22)	20.505	JPA-11-085	36,121	23,387	-
Public Transportation Research-2016 FTA(23)	20.505	JPA-11-085	36,733	34,309	-
Total FTA Program				244,345	-
Passed through Arizona's Governor's Office of Highway Safety					
State & Community Highway Safety-DUI/Youth Alcohol Enforcement	20.600	2015-AL-006	25,000	15,569	-
State & Community Highway Safety-Portable Privacy Barrier	20.600	2015-AI-013	4,898	-	-
State & Community Highway Safety-Traffic Enforcement Radar Unit	20.600	2015-PT-053	11,459	-	-
State & Community Highway Safety-DRE Training	20.600	2015-405D-500	7,209	-	-
State & Community Highway Safety-DUI/Youth Alcohol Enforcement	20.600	2016-AL-008	20,000	4,509	-
State & Community Highway Safety-DUI OT Task Force	20.600	2016-II-011	20,000	16,994	-
State & Community Highway Safety-Ped Safety Equip Bikes	20.600	2016-PS-007	8,636	6,778	-
State & Community Highway Safety-STEP Enforcement Equipment	20.600	2016-PT-062	32,253	31,433	-
Total Highway Safety Cluster				75,283	-
Total Department of Transportation				968,637	-

(Continued)

See accompanying notes to schedules of expenditures of federal awards.

**CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

Federal Grantor/Passthrough Grantor/Program Title	Federal CFDA Number	Contract/Grant Number	Award Amount	Expenditures	Subrecipients/ Pass-through
Institute Of Museum And Library Services					
<i>Passed through AZ State Library, Archives & Public Records</i>					
Grants to States-State Grant in Aid	45.310	2016 SGIA	\$ 25,000	\$ 19,401	\$ -
Grants to States-Preserve and Honoring Flagstaff's Past	45.310	2013 LSTA	11,900		-
Grants to States - Storytime Project	45.310	2013 LSTA	18,365	3,788	-
Grants to States - Toddler Tools for Tuba City	45.310	2013 LSTA	14,070	5,130	-
Grants to States - Expanding Access to STEM	45.310	2014 LSTA	16,650	5,031	-
Grants to States - Crafting Creative Communities	45.310	2016 LSTA	16,650	507	-
Total Institute of Museum and Library Services				33,857	-
Environmental Protection Agency					
<i>Direct Programs:</i>					
Brownfields Assessment & Cleanup Cooperative Agreement	66.818	00T97401	700,000	181,223	-
Distributions to Sub-Recipients	66.818				121,995
Total Environmental Protection Agency				181,223	121,995
Department of Homeland Security					
<i>Direct Programs:</i>					
FEMA Floodplain Management Plan	97.045	EMW-2014-CA-00087	200,000	120,000	-
FEMA Floodplain Indirect	97.045	EMW-2014-CA-00087	14,574	9,432	-
Total Department of Homeland Security				129,432	-
Total Expenditures of Federal Awards				\$ 7,798,939	\$ 340,887

See accompanying notes to schedules of expenditures of federal awards.

CITY OF FLAGSTAFF, ARIZONA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City of Flagstaff, Arizona under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of Example Entity, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Flagstaff, Arizona.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Flagstaff, Arizona has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 INDIRECT COST

The City did not elect the ten percent de minimus indirect cost rate.

INDEPENDENT ACCOUNTANTS' REPORT

The Honorable Mayor and Members of City Council
City of Flagstaff, Arizona
Flagstaff, Arizona

We have examined the City of Flagstaff, Arizona's (City) compliance as to whether expenditures made during the fiscal year ended June 30, 2016, from Highway User Revenue Fund monies received by the City pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the City were used solely for the authorized transportation purposes prescribed in Article IX, §14, of the Arizona Constitution. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included 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 examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City of Flagstaff, Arizona complied, in all material respects, with the aforementioned requirements for the fiscal year ended June 30, 2016.

This report is intended solely for the information and use of the Mayor and City Council, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
December 28, 2016



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE**

The Honorable Mayor and Members of City Council
City of Flagstaff, Arizona
Flagstaff, Arizona

Report on Compliance

We have audited the City of Flagstaff, Arizona's (City) compliance with the types of compliance requirements described in the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of laws and regulations applicable to its passenger facility program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance 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 the Guide. Those standards and the Guide 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 the passenger facility charge 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 with the passenger facility charge program. However, our audit does not provide a legal determination on the City's compliance.

Opinion on Compliance with Passenger Facility Charge Audit Guide for Public Agencies

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 the passenger facility charge program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the City of Flagstaff, Arizona is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations of the passenger facility charge program. 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 the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, 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 the passenger facility charges 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 the passenger facility charges 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 the passenger facility charges 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 result of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

The Honorable Mayor and Members of City Council
City of Flagstaff, Arizona

Report on Schedule of Expenditures of Passenger Facility Charges

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 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 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 passenger facility charges is presented for purposes of additional analysis as required by the *Passenger Facility Charge Audit Guide for Public Agencies* 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 expenditure of passenger facility charges is fairly stated in all material respects in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Phoenix, Arizona
December 28, 2016

**CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF PASSENGER FACILITY PROGRAM
FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2016**

CURRENT YEAR FINDINGS

None.

SCHEDULE OF PRIOR FINDINGS

None.

CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES
FISCAL YEAR ENDED JUNE 30, 2016

	<u>September 30</u>	<u>December 31</u>	<u>March 31</u>	<u>June 30</u>	<u>TOTALS</u>
92-01-C-01-FLG	\$ -	\$ -	\$ -	\$ -	\$ -
09-02-C-01-FLG	10,544	-	-	-	10,544
15-03-C-00-FLG	<u>150,039</u>	<u>44,619</u>	<u>75,932</u>	<u>48,066</u>	<u>318,656</u>
Total	<u>\$ 160,583</u>	<u>\$ 44,619</u>	<u>\$ 75,932</u>	<u>\$ 48,066</u>	<u>\$ 329,200</u>