CITY OF FLAGSTAFF, ARIZONA SINGLE AUDIT REPORT PACKAGE JUNE 30, 2003

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MEMBERS

American Institute of Certified Public Accountants Arizona Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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

We have audited the basic financial statements of City of Flagstaff, Arizona (the City), as of and for the year ended June 30, 2003, and have issued our report thereon dated September 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic 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 as opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

Nordstrom & associates, P.C.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

This report is intended for the information and use of the audit committee, management, others within the organization, the city council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Flagstaff, Arizona

September 30, 2003

Bruce J. Nordstrom, CPA

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of City of Flagstaff, Arizona (the City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The City's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control over Compliance

The management of the City 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'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.

Our consideration of internal control over compliance would not necessarily disclose all such internal control matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

Nordstrom & associates, P.C.

We have audited the basic financial statements of the City as of and for the year ended June 30, 2003, and have issued our report thereon dated September 30, 2003. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the audit committee, management, others within the organization, the city council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Flagstaff, Arizona

September 30, 2003

CITY OF FLAGSTAFF, ARIZONA SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2003

Summary of Audit Results

- 1. The auditor's report expresses an unqualified opinion on the basic financial statements of City of Flagstaff, Arizona.
- 2. No reportable conditions were disclosed during the audit of the basic financial statements.
- 3. No instances of noncompliance material to the basic financial statements of the City were disclosed during the audit.
- 4. No reportable conditions were disclosed during the audit of the major federal award programs.
- 5. The auditor's report on compliance for the major federal award programs for the City expresses an unqualified opinion on all major federal programs.
- 6. There are no audit findings relative to the major federal award programs for the City.
- 7. The programs tested as major programs included:

20.106 Airport Improvement Program
20.205 Highway Planning and Construction

- 8. The threshold for distinguishing Type A and B programs was \$300,000.
- 9. The City did qualify as a low-risk auditee.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2003

ACCRUED OR (DEFERRED) REVENUE AT JUNE 30. 2003	37 \$ -	55 40 8,040 21 11.764 73 19,804	19,804	1,545 22 47,001 39 1,600 15 160,435 142,435	353,016	341 341	000'06	41 90,341	90 - (32,173) 33 (37,173)
EXPENDITURES	\$ 15,737	39,557 4,755 8,040 15,621 67,973	83,710	16,337 184,322 71,939 372,615	645,213	34	000'06	90,341	4,390 14.113 18.503
RECEIPTS	\$ 39,112	16,000 103,195 7,500 - 3,857 130,552	169,664	88 33,961 237,292 252,609 354,615	878,565	,	3,388	3,388	46.286
ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2002	\$ 23,375	16,000 63,638 2,745 - - 82,383	105,758	88 19,169 99,971 182,270 142,435	586,368	•	3,388	3,388	(4,390)
AWARD AMOUNT	\$ 45,000	16,000 150,000 7,500 123,750 27,500		728,000 732,000 732,000 757,000 726,000		341	272,207		60,610 46,286
CONTRACT/ GRANT NUMBER	01-DG-11030420-592	ASLP Title VIII, #01 SFA-1010 ASLD G-08 SFA-2011 SFA-2021		B-98-MC-04-0510 B-99-MC-04-0510 B-00-MC-04-0510 B-01-MC-04-0510 B-02-MC-04-0510 B-03-MC-04-0510		440003.20	PAA 01 7002		2001-LB-BX-2388 2002-LB-BX-2883
FEDERAL CFDA NUMBER	10.664	10.664 10.664 10.664 10.664 10.664		14.218 14.218 14.218 14.218 14.218		15.904	15.224		16.592 16.592
FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	Department of Agriculture Direct Programs: Cooperative Forestry Assistance	Passed through Arizona State Land Department Cooperative Forestry Assistance Subtotal	Total Department of Agriculture	Department of Housing and Urban Development Direct Programs: Community Development Block Grant/Entitlement Grants	Total Department of Housing and Urban Development	Department of Interior Direct Programs: National Park Service	Passed through Northern Arizona University: Cultural Resource Management	Total Department of Interior	Bureau of Justice Assistance Direct Programs: Local Law Enforcement Block Grant Local Law Enforcement Block Grant Subtotal

See the accompanying notes to this schedule.

CITY OF FLAGSTAFF, ARIZONA SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2003

ACCRUED OR (DEFERRED) (DEFERRED) REVENUE AT RECEIPTS EXPENDITURES JUNE 30, 2003	\$ 65,280 \$ - \$ \$ - \$.	236,444	5,526 (796) - 17,048 17,048 5,526 16,252 17,048	70,309 68,776 11,028 3,222,344 936,029 4,085,265 2,712,316 44,099 460,409 591,195 130,786 9,119 9,119	7,838,327 4,317,435 195,032	58,248 68,347 35,387 57,639 29,305 29,305 89,105 89,105 115,887 267,632 330,096	10,259 8,327 -	10,775 14,268 3,493
ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2002	\$ 65,280	068'09	6,322	12,561 2,286,315 1,417,048	3,715,924	25,288 31,000 - - 122,063 178,351	1,932	
AWARD	\$ 209,860 219,351		50,000	1,650,000 3,802,808 5,213,792 1,000,000 3,050,600		50,000 100,000 80,000 100,000 122,063	10,000	15,000
CONTRACT/ GRANT NUMBER	AL-140-02 AL-140-03		1999 Weed and Seed 2002 Weed and Seed	AIP 3-04-0015-19 AIP 3-04-0015-20 AIP 3-04-0015-21 AIP 3-04-0015-22 AIP 3-04-0015-23		T00-49-A0013 T00-49-A0013 T00-49-A0013 T00-49-A0013 T00-49-A0013	2001-0JJDP-010	2001-163-002
FEDERAL CFDA NUMBER	16.579 16.579		16.595 16.595	20.106 20.106 20.106 20.106 20.106		20.205 20.205 20.205 20.205 20.205 20.205	20.600	20.600
FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE Passed through Arizona Cilminal Institut Commission	ssea intougn Arzona Criminal Justice Commission Byrne Formula Grant Program Byrne Formula Grant Program Subtotal	Total Bureau of Justice Assistance	Department of Justice Direct Programs: Executive Office of Weed and Seed Executive Office of Weed and Seed Total Department of Justice	Federal Aviation Administration Direct Programs: Airport Improvement Program	Total Federal Aviation Administration	Department of Transportation Passed through Arizona Department of Transportation: Highway Planning and Construction-2000 STP Highway Planning and Construction-2002 PL Highway Planning and Construction-2003 SPR Highway Planning and Construction-2003 SPR Highway Planning and Construction-FHWA Subtotal	Passed through Arizona's Governor's Office of Public Safety State and Community Highway Safety	Passed through Arizona's Governor's Office of Highway Safety State and Community Highway Safety

See the accompanying notes to this schedule.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2003

ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2003	\$ 25,803 22,459	48,262	489	489	(2,388)	(3,274)	- (700)	(700) \$ 1,108.302
EXPENDITURES	\$ 25,803 22,459	48,262	19,736	20,225	9,114	9,114	3,567	4,222 \$ 5,761,445
RECEIPTS	\$ 20,614	20,614	51,524	51,524	10,000	10,000	4,170 2,232 1,355	7,757 \$ 9,364,925
ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2002	\$ 20,614	20,614	31,788	31,788	(2,388)	(2,388)	4,170 (1,335)	2,835 \$ 4,711,782
AWARD	\$ 47,246 25,803 25,803		53,358 45,353		7,770		5,000 4,463 2,710	
CONTRACT/ GRANT NUMBER	T00-49-A0013 T00-49-A0013 T00-49-A0013		ATC020062 ATC03000092		981-3-2-(2) 2001-CIP-0300		CJAG 2001-65 Healthy Aging 2010 Healthy Aging 2010 (FY 03)	
FEDERAL CFDA NUMBER	20.514 20.514 20.514		21.052 21.052		45.310 45.310		93.643 93.991 93.991	
FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	Federal Transit Administration Passed through Arizona Department of Transportation: Transit Planning and Research-2001 FTA(09) Transit Planning and Research-2002 FTA(10) Transit Planning and Research-2003 FTA(11)	Total Federal Transit Administration	Department of the Treasury Direct Programs: Alcohol, Tobacco and Firearms-Training Assistance Alcohol, Tobacco and Firearms-Training Assistance	Total Bureau of Alcohol, Tobacco and Firearms	Institute of Museum and Library Services Passed through State of Arizona Department of Library, Archives and Public Records: State Library Program State Library Program	Total Institute of Museum and Library Services	Department of Health and Human Services Passed through Arizona Governor's Community Policy Office: Children's Justice Grants to States Preventive Health & Health Services Block Grant Preventive Health & Health Services Block Grant	Total Department of Health and Human Services Total Expenditures of Federal Awards

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2003

Note 1 - Basis of Accounting

The Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting. Amounts presented on the Schedule are recorded in the General, Special Revenue and Enterprise Funds.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the 2003 Catalog of Federal Domestic Assistance.

Note 3 – Subrecipients

From the federal expenditures presented in the schedule, the City expended the following to subrecipients.

	CFDA	
Program Title	Number	Amount
Community Development Block Grant	14.218	\$ 468,216

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2003

Note 4 - Pass-Through Grantor's Reference

The following are nonfederal agencies that have passed through federal monies to the City:

	Pass-Through
Pass-Through Agency	Grantor Number
Northern Arizona University:	
Cultural Resource Management	PAA 01 7002
Arizona State Land Department:	
Cooperative Forestry Assistance	ASLP Title VIII, #01
Cooperative Forestry Assistance	SFA-1010
Cooperative Forestry Assistance	ASLD G-08
Cooperative Forestry Assistance	SFA-2011
Cooperative Forestry Assistance	SFA-2021
Arizona Criminal Justice Commission:	
Byrne Formula Grant Program	AL-140-02
Byrne Formula Grant Program	AL-140-03
State of Arizona Department of Library,	
Archives and Public Records:	
State Library Program	981-3-2-(2)
State Library Program	2001-CIP-0300
Arizona Department of Transportation:	
Highway Planning and Construction	T00-49-A0013
Transit Planning and Research - 2001 FTA(09)	T00-49-A0013
Transit Planning and Research - 2002 FTA(10)	T00-49-A0013
Transit Planning and Research - 2003 FTA(11)	T00-49-A0013
Arizona Governor's Office of Public Safety:	
State and Community Highway Safety	2001-0JJDP-010
Arizona Governor's Office of Highway Safety	
State and Community Highway Safety	2001-163-002
Arizona Governor's Community Policy Office	
Children's Justice Grants to States	CJAG 2001-65
Preventative Health & Health Services Block Grant	Healthy Aging 2010