



Single Audit Report and Schedule of
Expenditures of Federal Awards
June 30, 2015

City of Flagstaff, Arizona

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

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 the City of Flagstaff, Arizona (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 18, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as findings 2015-A and 2015-B to be significant deficiencies.

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*.

Management's Response to Findings

The City's management's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Phoenix, Arizona

December 30, 2015, except for 2015-C, for which the date is March 17, 2016



Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Flagstaff, Arizona’s (the 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, 2015. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on the compliance for each of the City’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the 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, 2015.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement 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 that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the City as of and for the year ended June 30, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements 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 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 additional 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Phoenix, Arizona
December 30, 2015



Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control over Compliance

The Honorable Mayor,
Members of the City Council, and
Federal Aviation Administration
City of Flagstaff, Arizona

Report on Compliance

We have audited the compliance of Flagstaff Pulliam Airport with the 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 quarters and year ended June 30, 2015.

Management's Responsibility for Compliance

Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Airport's management.

Auditor's Responsibility

Our responsibility is to express an opinion on Flagstaff Pulliam Airport's 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 that could have a material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about Flagstaff Pulliam Airport'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. However, our audit does not provide a legal determination of Flagstaff Pulliam Airport's compliance.

Opinion

In our opinion, Flagstaff Pulliam Airport complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of Flagstaff Pulliam Airport is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Flagstaff Pulliam Airport'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 Flagstaff Pulliam Airport'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 charge 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 compliance requirement 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 charge 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 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 Guide. Accordingly, this report is not suitable for any other purpose.

This report is intended solely for the information and the use of the Mayor, City Council, management and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Phoenix, Arizona
December 30, 2015

City of Flagstaff, Arizona
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2015

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2014	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2015
Department of Agriculture							
<i>Passed through Arizona State Forestry Division</i>							
Cooperative Forestry Assistance-Our Forest Our Future	10.664	SFA 11-203	\$ 107,500	\$ 66,812	\$ 66,812	\$ 33,950	\$ 33,950
Cooperative Forestry Assistance-Western Bark Beetle Initiative	10.664	WBBI 13-601	100,000	-	-	39,110	39,110
Subtotal				66,812	66,812	73,060	73,060
Total Department of Agriculture				66,812	66,812	73,060	73,060
Department of Commerce							
<i>Direct Programs:</i>							
Economic Adjustment Assistance-Business Accelerator & EOC	11.307	07-79-06817	4,000,000	251,500	2,186,362	3,110,585	1,175,723
Total Department of Commerce				251,500	2,186,362	3,110,585	1,175,723
Department of Housing and Urban Development							
<i>Direct Programs:</i>							
Community Development Block Grant 2011-2012	14.218	B-11-MC-04-0510	559,009	14,795	14,795	-	-
Community Development Block Grant 2012-2013	14.218	B-12-MC-04-0510	532,465	11,301	63,252	51,951	-
Community Development Block Grant 2013-2014	14.218	B-13-MC-04-0510	565,772	97,215	347,064	317,351	67,502
Community Development Block Grant 2014-2015	14.218	B-14-MC-04-0510	570,941	-	79,532	146,484	66,952
Subtotal				123,311	504,644	515,786	134,454
Public and Indian Housing	14.850	AZ006-00000114D	266,905	-	170,405	170,405	-
Public and Indian Housing	14.850	AZ006-00000115D	292,601	-	146,764	146,764	-
Public and Indian Housing	14.850	AZ006-00000214D	292,726	-	187,117	187,117	-
Public and Indian Housing	14.850	AZ006-00000215D	324,586	-	162,806	162,806	-
Subtotal				-	667,092	667,092	-
Public Housing Capital Fund	14.872	AZ20P00650112	360,994	-	1,053	1,053	-
Public Housing Capital Fund	14.872	AZ20P00650113	348,130	12,194	61,372	49,178	-
Public Housing Capital Fund	14.872	AZ20P00650114	362,437	3,278	123,545	123,129	2,862
Public Housing Capital Fund	14.872	AZ20P00650115	357,680	-	12,294	43,559	31,265
Subtotal				15,472	198,264	216,919	34,127
Section 8 Housing Choice Voucher	14.871	AZ006	3,291,866	23,372	3,316,903	3,311,068	17,537
Lower Income Housing Assistance Program_Section 8 Moderate Rehab	14.856	AZ006MRO001/AZ006SRO001	89,352	(9,646)	81,634	92,284	1,004
Subtotal				13,726	3,398,537	3,403,352	18,541
<i>Passed through Arizona Department of Housing</i>							
Home Investment Partnership Program 2012	14.239	304-12	300,000	33,027	113,854	80,827	-
Home Investment Partnership Program 2013	14.239	305-13	385,000	28,475	62,961	37,867	3,381
Subtotal				61,502	176,815	118,694	3,381
Total Department of Housing and Urban Development				214,011	4,945,351	4,921,843	190,503

City of Flagstaff, Arizona
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2014	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2015
Department of Interior							
<i>Direct Programs:</i>							
National Park Service Conservation, Protection, Outreach and Education -Dispatch Services	15.954	P12AC10702	5,000	-	-	5,000	5,000
Reclamation Water Supply Program-Red Gap Ranch Feasibility Study	15.548	R12AP32025	300,000	68,591	129,587	102,723	41,726
US Fish and Wildlife-Rio Restoration	15.631	F12AC00159	25,000	-	-	25,000	25,000
Subtotal				68,591	129,587	132,723	71,726
<i>Passed through Arizona State Parks Board</i>							
Arizona State Historic Preservation Conference	15.904	AZ-14-014	10,000	-	-	10,000	10,000
Subtotal				-	-	10,000	10,000
 Total Department of Interior							
				68,591	129,587	142,723	81,726
Department of Justice							
<i>Passed through State of Arizona</i>							
Arizona Internet Crimes Against Children Training 2015	16.534	2012-MC-FX-K008	9,859	-	-	9,727	9,727
Subtotal				-	-	9,727	9,727
<i>Direct Programs:</i>							
Edward Byrne Memorial Justice Assistance Grant Program FY13	16.738	2013-DJ-BX-1126	23,249	7,526	20,166	12,640	-
Edward Byrne Memorial Justice Assistance Grant Program FY14	16.738	2014-DJ-BX-1126	24,330	-	865	11,356	10,491
Subtotal				7,526	21,031	23,996	10,491
Bulletproof Vest Partnership Program	16.607	2013 BVP	10,005	3,467	9,446	7,868	1,888
Public Safety Partnership and Community Policing Grant 2011	16.710	2011UMXW0015	966,336	143,226	294,065	170,798	19,959
Subtotal				146,693	303,511	178,665	21,847
<i>Passed through Arizona Criminal Justice Commission</i>							
Edward Byrne Memorial Justice Assistance Grant Program Cycle 27	16.803	DC-14-022	140,972	37,045	44,870	7,825	-
Edward Byrne Memorial Justice Assistance Grant Program Cycle 28	16.803	DC-15-022	116,664	-	89,492	116,664	27,173
Subtotal				37,045	134,362	124,489	27,173
 Total Department of Justice							
				191,264	458,903	336,877	69,238
Department of Transportation							
<i>Direct Programs:</i>							
Airport Improvement Program-AIP 36	20.106	AIP-3-04-0015-036-2013	4,905,017	2,551,363	4,336,865	1,785,502	-
Airport Improvement Program-AIP 37	20.106	AIP-3-04-0015-037-2013	270,000	-	70,960	152,363	81,403
Subtotal				2,551,363	4,407,825	1,937,865	81,403
Payments for Small Community Air Service Development	20.930	WAG2011-SCASDP-01	800,000	-	90	90	-
Subtotal				2,551,363	4,407,915	1,937,955	81,403

City of Flagstaff, Arizona
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2014	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2015
<i>Passed through Arizona Department of Transportation:</i>							
Highway Planning and Construction - 2011 STP	20.205	JPA11-085	105,000	40,151	140,460	163,408	63,099
Highway Planning and Construction - 2014 PL	20.205	JPA11-085	117,103	29,929	29,929	-	-
Highway Planning and Construction - 2015 PL	20.205	JPA11-085	92,899	-	55,207	88,461	33,254
Highway Planning and Construction - 2014 SPR	20.205	JPA11-085	125,000	68,158	68,158	-	-
Highway Planning and Construction - 2015 SPR	20.205	JPA11-085	125,000	-	32,966	135,000	102,034
Highway Planning and Construction - Transit Spine Study	20.205	JPA11-085	300,000	-	-	83,054	83,054
Highway Planning and Construction - HSIP Signs	20.205	JPA10-100I	175,000	35,336	11,298	2,856	26,893
Highway Planning and Construction - Sitgreaves ADA Ramp	20.205	JPA11-196I	86,818	86,818	86,818	-	-
Subtotal				260,393	424,837	472,779	308,334
<i>Passed through Arizona Department of Transportation:</i>							
Regional Trails Program-FUTS Sign Project	20.219	PR11-049	227,777	-	24,442	92,456	68,014
Subtotal				-	24,442	92,456	68,014
<i>Passed through Arizona Department of Transportation:</i>							
Public Transportation Research-2011 FTA(19)	20.514	JPA-11-085	26,844	667	667	-	-
Public Transportation Research-2012 FTA(20)	20.514	JPA-11-085	30,263	26,981	30,263	3,282	-
Public Transportation Research-2013 FTA(21)	20.514	JPA-11-085	36,348	-	2,581	36,348	33,767
Public Transportation Research-2014 FTA(22)	20.514	JPA-11-085	36,121	-	-	12,734	12,734
Subtotal				27,648	33,511	52,364	46,501
<i>Passed through Arizona's Governor's Office of Highway Safety</i>							
State & Community Highway Safety-DUI Enforcement Van Remodel	20.600	2014-164-097	42,117	42,118	42,118	-	-
State & Community Highway Safety-Portable Breath Test	20.600	2014-164-108	7,000	6,878	6,878	-	-
State & Community Highway Safety-DUI Enforcement	20.600	2014-AL-009	18,000	5,133	5,700	567	-
State & Community Highway Safety-DUI/Youth Alcohol Enforcement	20.600	2014-AL-010	18,000	3,550	12,490	8,941	-
State & Community Highway Safety-First Responder Equipment	20.600	2014-EM-003	13,006	12,886	12,886	-	-
State & Community Highway Safety-DUI/Youth Alcohol Enforcement	20.600	2015-AL-006	25,000	-	4,514	7,345	2,831
State & Community Highway Safety-Portable Privacy Barrier	20.600	2015-AI-013	4,898	-	-	4,898	4,898
State & Community Highway Safety-Traffic Enforcement Radar Unit	20.600	2015-PT-053	11,459	-	-	11,235	11,235
State & Community Highway Safety-DRE Training	20.600	2015-405D-500	7,209	-	-	7,209	7,209
Subtotal				70,564	84,586	40,195	26,173
Total Department of Transportation				2,909,967	4,975,291	2,595,749	530,425
<u>Institute Of Museum And Library Services</u>							
<i>Passed through AZ State Library,</i>							
<i>Archives & Public Records</i>							
Grants to States-State Grant in Aid	45.310	2015 SGIA	25,000	-	25,000	25,000	-
Grants to States-Preserve and Honoring Flagstaff's Past	45.310	2013 LSTA	11,900	(2,035)	-	2,035	-
Grants to States - Storytime Project	45.310	2013 LSTA	18,365	(3,916)	-	129	(3,788)
Grants to States - Toddler Tools for Tuba City	45.310	2013 LSTA	14,070	60	14,070	8,172	(5,838)
Grants to States - Expanding Access to STEM	45.310	2014 LSTA	16,650	-	16,650	9,083	(7,567)
Subtotal				(5,891)	55,720	44,418	(17,193)
Total Institute of Museum and Library Services				(5,891)	55,720	44,418	(17,193)

City of Flagstaff, Arizona
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2014	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2015
Environmental Protection Agency							
<i>Direct Programs:</i>							
Brownfields Assessment & Cleanup Cooperative Agreement	66.818	00T97401	700,000	18,301	77,410	114,333	55,225
Subtotal				18,301	77,410	114,333	55,225
Total Environmental Protection Agency				18,301	77,410	114,333	55,225
Department of Homeland Security							
<i>Passed through AZ Division of Emergency Management</i>							
Disaster Grant - Public Assistance (Shultz Flooding)	97.036	FEMA-1940-DR	3,503,405	(69,627)	-	69,627	-
Homeland Security Grant Program-Fire-WMD Rad-Nuc Training	97.067	09-AZDOHS-HSGP-555101-02	2,520	7,206	(7,206)	-	14,412
Homeland Security Grant Program-Fire-MPD Aux Control Device	97.067	12-AZDOHS-HSGP-999105-03	1,390	1,390	1,390	-	-
Homeland Security Grant Program-Police-Gas Masks/Filters	97.067	13-AZDOHS-HSGP-130103-01	6,068	6,068	6,068	-	-
Homeland Security Grant Program-Police-Portable Radios	97.067	13-AZDOHS-HSGP-130103-02	17,382	17,382	17,382	-	-
Homeland Security Grant Program-Fire-HLS Active Shooter	97.067	13-AZDOHS-HSGP-888101-02	3,118	3,118	3,118	-	-
Subtotal				35,164	20,752	-	14,412
<i>Passed through Coconino County from FEMA</i>							
Disaster Grant-Public Assistance (Schultz Fire)	97.046	FM-2846	32,909	32,909	32,909	-	-
Subtotal				32,909	32,909	-	-
Total Department of Homeland Security				(1,554)	53,661	69,627	14,412
Total Expenditures of Federal Awards				\$ 3,713,001	\$ 12,949,098	\$ 11,409,215	\$ 2,173,119

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City, 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, and Non-Profit Organizations*. The City received federal awards both directly from federal agencies and indirectly through pass-through entities. Federal financial assistance provided to a subrecipient is treated as an expenditure when it is paid to the subrecipient.

Note 2 - Significant Accounting Policies

Governmental fund types account for the City's federal grant activity. Therefore, expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis – when they become a demand on current available financial resources. The City's summary of significant accounting policies is presented in Note I in the City's basic financial statements.

Note 3 - Subrecipients

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

<u>Sub-Recipient</u>	<u>Project Name</u>	<u>Program Title</u>	<u>CFDA #</u>	<u>Total Expenditure Amount</u>
Coconino County	Housing Stabilization	Community Development Block Grant-2012/2013	14.218	\$ 51,951
Bothands	Sharon's Attic Program/Job Creation	Community Development Block Grant-2013/2014	14.218	38,332
Bothands	Financial Assistance Program	Community Development Block Grant-2013/2014	14.218	121,430
Catholic Charities	Path Program Operations	Community Development Block Grant-2013/2014	14.218	10,618
Catholic Charities	Housing Rehabilitation - Cedar-Rose	Community Development Block Grant-2013/2014	14.218	35,679
DNA People's Legal Services	Housing Legal Assistance Program	Community Development Block Grant-2013/2014	14.218	12,033
Northland Hospice	Olivia White Hospice Home Operations Program	Community Development Block Grant-2013/2014	14.218	19,927
Guidance Center	Inverrary House Rehab	Community Development Block Grant-2014/2015	14.218	11,164
Flagstaff Shelter Services	Operations Assistance	Community Development Block Grant-2014/2015	14.218	37,256
Catholic Charities	PATH Operations	Community Development Block Grant-2014/2015	14.218	4,939
Total Disbursements to Sub-Recipients for CFDA #14.218				<u>\$ 343,329</u>
Coconino County	JAG 2013	Edward Bryne Memorial Justice Assistance Grant Program FY13	16.738	\$ 6,708
Coconino County	JAG 2014	Edward Bryne Memorial Justice Assistance Grant Program FY14	16.738	7,153
Total Disbursements to Sub-Recipients for CFDA #16.738				<u>\$ 13,861</u>
City of Holbrook	Brownfield Assessment	Brownfield Assessment & Cleanup Cooperative Agreement	66.818	\$ 12,470
Coconino County	Brownfield Assessment	Brownfield Assessment & Cleanup Cooperative Agreement	66.818	17,669
Total Disbursements to Sub-Recipients for CFDA #66.818				<u>\$ 30,139</u>

Section I - Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to the financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major programs:	
Economic Adjustment Assistance 11.307	Unmodified
Section 8 Housing Choice Voucher 14.871	Unmodified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 §.510(a):	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Economic Adjustment Assistance	11.307
Section 8 Housing Choice Voucher	14.871
Dollar threshold used to distinguish between type A and type B programs:	\$ 342,276
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

Significant Deficiencies

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

Criteria or Specific Requirement: A system of internal accounting controls includes a system for oversight of financial data at multiple locations and the aggregation of that data into the City's financial reporting system.

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.

Context: The City provides oversight of multiple locations throughout their geographical area. Of these, we found only the oversight and aggregation of the public housing facility to contain inaccuracies or omissions.

Effect: This deficiency indicates an increase in risk of material misstatements in the financial statements.

Cause: Oversight and miscommunication between the public housing facility and other City accounting personnel.

Recommendation: The City should review their procedures to ensure they allow for sufficient oversight and aggregation of financial data. This oversight should include, at minimum, regular communication of activities at the public housing authority and review of financial data both pre and post aggregation.

Action Planned in Response to Finding: The City has been challenged with combining capital assets from two separate financial systems. The City is in the process of implementing a new capital asset system in FY 2016. We will include the Flagstaff Housing Authority capital assets in the same system.

Official Responsible for Ensuring Corrective Action: Finance Director

Planned Completion Date of Corrective Action: June 30, 2016

Plan to Monitor Completion of Corrective Action: We will continue to implement the new capital asset system and tie out all assets between the older and newer system.

2015-B Timely and Accurate Reconciliation of Miscellaneous Receivables

Criteria or Specific Requirement: A system of internal accounting controls includes a system for accurate and timely reconciliation and review of significant or sensitive account balances.

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.

Context: The City has several miscellaneous sources of revenues and receivables. Of these, we identified one receivable and revenue account affected by the misstatement.

Effect: This deficiency indicates an increase in risk of material misstatements in the financial statements.

Cause: The City experienced significant turnover of key personnel that may have led to the oversight.

Recommendation: The City should review their procedures to ensure all significant or sensitive accounts are timely and accurately reconciled. Additionally, the City should consider if checklists, procedural handbooks, or other tools would assist in ensuring smooth transitions between key personnel.

Action Planned in Response to Finding: Staff did not recognize the importance of posting revenues and receivable in the correct fiscal year which becomes very important to understand in June and July each year. We will modify our process for fire protection contracts billing to prevent this error in future years. We will also discuss issues with the Billing Specialist for the next fiscal year end transactions and have the Billing Specialist report back items relate to timing during the reconciliation process.

Official Responsible for Ensuring Corrective Action: Revenue Director

Planned Completion Date of Corrective Action: September 30, 2016

Plan to Monitor Completion of Corrective Action: We will add this review to our year end checklist.

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

Criteria or Specific Requirement: A system of internal accounting controls includes a system for accurate identification and reporting of restrictions on net position of governmental activities in the government-wide financial statements.

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.

Context: The City is responsible for the preparation and presentation of financial statements. The financial statements presented as of June 30, 2015 contained an error in the categorization of restrictions within governmental activities net position.

Effect: The City decided to reissue the financial statements as of June 30, 2015 to properly presented restriction on net position of governmental activities.

Cause: As of June 30, 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which resulted in negative net position for governmental activities. The City's financial statements have never shown negative unrestricted net position of governmental activities. While implementing the GASB 68 and 71 and the City misunderstood how to reflect these changes on the classification of net position and mistakenly reduced the restricted net position in the statement of net position before reducing unrestricted net position of governmental activities.

Recommendation: The City should continue to perform a robust review of the financial statements to ensure that all restrictions on net position are properly reflected. The City should continue to study GASB standards to ensure it fully understands the implications of implementation on all parts of the financial statements.

Action Planned in Response to Finding: Staff discovered the error and took immediate action to contact the City's auditors with this information and decided to reissue the City financial statements.

Official Responsible for Ensuring Corrective Action: Finance Director

Planned Completion Date of Corrective Action: February 23, 2016

Plan to Monitor Completion of Corrective Action: Management will continue to ensure City staff has the knowledge needed to implement new GASB standards, provide necessary training, and will perform a comprehensive review of all components of the financial statements.

Section III - Federal Award Findings and Questioned Costs

None identified.

Section IV - Status of Prior Years Findings

None identified.