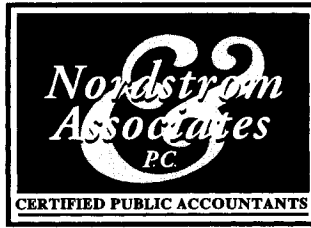


CITY OF FLAGSTAFF, ARIZONA
SINGLE AUDIT REPORT PACKAGE
JUNE 30, 2006

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND OTHER
MATTERS 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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Flagstaff, Arizona (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 26, 2006. 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 in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

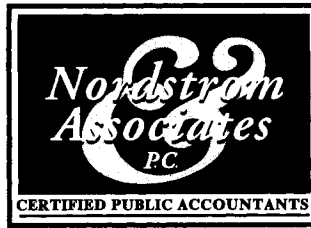
In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. 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 reportable 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 caused by error or fraud 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 internal control over financial reporting and its operation that we considered to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to management of the City in a separate letter dated October 26, 2006.

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.

Nordstrom & Associates, P.C.

Flagstaff, Arizona
October 26, 2006

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, 2006. 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, 2006.

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 matters in internal control 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 caused by error or fraud 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

We have audited the financial statements of the governmental activities, business type activities, each major fund, and aggregate remaining fund information of the City as of and for the year ended June 30, 2006, and have issued our report thereon dated October 26, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Flagstaff's basic financial statements. 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.

Nordstrom & Associates, P.C.

Flagstaff, Arizona
October 26, 2006

CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

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:

<u>CFDA No.</u>	<u>Program Title</u>
14.218	CDBG Entitlement Grants
16.579	Byrne Formula Grant Program
97.067	Homeland Security – Public Assistance Grant

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

CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2005	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2006
Department of Agriculture							
<i>Passed through Arizona State Land Department</i>							
Cooperative Forestry Assistance	10.664	SFA-2011	\$ 123,750	\$ 3,735	\$ 3,735	\$ -	\$ -
Cooperative Forestry Assistance	10.664	SFA-2021	55,000	7,702	-	-	7,702
Cooperative Forestry Assistance	10.664	02-CA-11031600-023	61,250	8,387	16,001	7,614	-
Cooperative Forestry Assistance	10.664	SFA 3002	120,000	54,030	94,490	40,460	-
Cooperative Forestry Assistance	10.664	SFA 3012	7,000	1,328	3,865	5,609	3,072
Cooperative Forestry Assistance	10.664	SFA 4010	15,000	150	79	-	71
Total Department of Agriculture				75,332	118,170	53,683	10,845
Department of Housing and Urban Development							
<i>Direct Programs:</i>							
Community Development Block Grant/Entitlement Grants	14.218	B-02-MC-04-0510	726,000	8,082	71,082	65,039	2,039
Community Development Block Grant/Entitlement Grants	14.218	B-03-MC-04-0510	758,000	17,211	23,451	6,240	-
Community Development Block Grant/Entitlement Grants	14.218	B-04-MC-04-0510	742,000	142,703	339,315	199,647	3,035
Community Development Block Grant/Entitlement Grants	14.218	B-05-MC-04-0510	882,960	-	386,141	477,512	91,371
Total Department of Housing and Urban Development				167,996	819,989	748,438	96,445
Department of the Interior							
<i>Direct Programs:</i>							
Bureau of Reclamation	15.BBM	04-FG-32-0220	34,500	34,500	-	-	34,500
Total Department of the Interior				34,500	-	-	34,500

See the accompanying notes to this schedule.

CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2005	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2006
Department of Justice							
<i>Direct Programs:</i>							
Gang-Free Schools and Communities_ Community- Based Gang Intervention	16.544	2004-JV-FX-0064	45,353	10,217	10,217	-	-
Gang-Free Schools and Communities_ Community- Based Gang Intervention	16.544	2004-JV-FX-0064	45,353	-	39,827	46,069	6,242
				<u>10,217</u>	<u>50,044</u>	<u>46,069</u>	<u>6,242</u>
Local Law Enforcement Block Grants Program	16.592	2003-LB-BX-1104	36,347	(376)	-	376	-
Local Law Enforcement Block Grants Program	16.592	2004-LB-BX-0322	14,921	(10,990)	-	10,630	(360)
Subtotal				<u>(11,366)</u>	<u>-</u>	<u>11,006</u>	<u>(360)</u>
Edward Byrne Memorial Justice Assistance Grant	16.738	2005-DJ-BX-0828	60,963	-	18,318	32,645	14,327
Edward Byrne Memorial Justice Assistance Grant	16.738	2006-DJ-BX-0605	30,053	-	-	-	-
Subtotal				<u>-</u>	<u>18,318</u>	<u>32,645</u>	<u>14,327</u>
Bullet Proof Vest Partnership Program	16.607	2001 BVP	3,640	-	-	-	-
Bullet Proof Vest Partnership Program	16.607	2003 BVP	10,005	-	-	-	-
Bullet Proof Vest Partnership Program	16.607	2004 BVP	6,055	-	3,328	2,382	(946)
Bullet Proof Vest Partnership Program	16.607	2005 BVP	7,355	-	-	-	-
Subtotal				<u>-</u>	<u>3,328</u>	<u>2,382</u>	<u>(946)</u>
Community Prosecution & Project Safe Neighborhoods-Juvenile	16.609	PSN-06-3010	25,000	-	1,894	5,864	3,970
Community Prosecution & Project Safe Neighborhoods-Gun	16.609	PSN-06-2011	50,000	-	7,993	20,648	12,655
Subtotal				<u>-</u>	<u>9,887</u>	<u>26,512</u>	<u>16,625</u>
Public Safety Partnership and Community Policing Grants	16.710	2003UMWX0012	150,000	49,922	28,435	5,493	26,980
Public Safety Partnership and Community Policing Grants	16.710	2003OMWX0215	77,274	1,711	9,294	7,583	-
Subtotal				<u>51,633</u>	<u>37,729</u>	<u>13,076</u>	<u>26,980</u>
<i>Passed through US Attorneys Office, District of Arizona</i>							
Antiterrorism Emergency Reserve	16.321	G04-10-PD	20,000	19,166	-	-	19,166
<i>Passed through State of Arizona</i>							
Missing Children's Assistance	16.543	2000-MC-CX-K018	7,950	2,970	-	-	2,970
<i>Passed through Arizona Criminal Justice Commission</i>							
Byrne Formula Grant Program	16.579	AL-140-06	151,369	-	93,490	136,338	42,848
Byrne Formula Grant Program	16.579	AL-140-05	219,499	74,226	74,226	-	-
Subtotal				<u>74,226</u>	<u>167,716</u>	<u>136,338</u>	<u>42,848</u>

See the accompanying notes to this schedule.

CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2005	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2006
<i>Passed through United Way of Northern Arizona</i>							
Executive Office of Weed and Seed	16.595	2004WSQ40035	50,000	25,848	17,101	36,393	45,140
Subtotal				25,848	17,101	36,393	45,140
Total Department of Justice				172,694	304,123	304,421	172,992
Department of Transportation							
<i>Direct Programs:</i>							
Airport Improvement Program	20.106	AIP 3-04-0015-22	1,000,000	24,138	48,256	24,118	-
Airport Improvement Program	20.106	AIP 3-04-0015-23	3,050,600	-	-	136,120	136,120
Airport Improvement Program	20.106	AIP 3-04-0015-24	413,261	78,890	78,890	45,828	45,828
Airport Improvement Program	20.106	AIP 3-04-0015-25	120,000	58,023	58,023	-	-
Airport Improvement Program	20.106	AIP 3-04-0015-26	247,000	136,422	180,377	68,347	24,392
Airport Improvement Program	20.106	AIP 3-04-0015-27	1,016,825	-	-	504,875	504,875
Airport Improvement Program	20.106	AIP 3-04-0015-28	218,500	-	-	12,540	12,540
Airport Improvement Program	20.106	AIP 3-04-0015-29	500,000	-	-	-	-
Airport Improvement Program	20.106	AIP 3-04-0015-30	10,483,414	-	-	10,343	10,343
Subtotal				297,473	365,546	802,171	734,098
<i>Passed through Arizona Department of Transportation:</i>							
Highway Planning and Construction-2003 PL	20.205	T00-49-A0013	100,000	19,577	19,577	-	-
Highway Planning and Construction-2003 SPR	20.205	T00-49-A0013	100,000	4,763	4,763	-	-
Highway Planning and Construction-2003 SPR - Reorg	20.205		100,000	-	-	6,882	6,882
Highway Planning and Construction-2004 PL	20.205	T00-49-A0013	100,000	100,000	100,000	-	-
Highway Planning and Construction-2004 SPR	20.205	T00-49-A0013	100,000	100,000	100,000	-	-
Highway Planning and Construction-2004 STP	20.205	T00-49-A0013	299,667	26,714	26,714	13,289	13,289
Highway Planning and Construction-2005 PL	20.205	T00-49-A0013	117,116	99,522	99,522	17,594	17,594
Highway Planning and Construction-2005 SPR	20.205	T00-49-A0013	205,000	187,925	187,925	17,075	17,075
Highway Planning and Construction-2006 PL	20.205	T06-49-B0001	111,377	-	-	111,377	111,377
Highway Planning and Construction-2006 SPR	20.205	T06-49-B0001	125,000	-	-	125,000	125,000
Highway Planning and Construction-2007 SPR	20.205	T06-49-B0001	111,377	-	-	38,370	38,370
Subtotal				538,501	538,501	329,587	329,587
<i>Passed through Arizona Department of Transportation:</i>							
Transit Planning and Research-2004 FTA(12)	20.514	T00-49-A0013	25,803	25,803	25,803	-	-
Transit Planning and Research-2005 FTA(13)	20.514	T06-49-B0001	25,803	-	-	25,803	25,803
Subtotal				25,803	25,803	25,803	25,803

See the accompanying notes to this schedule.

CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2005	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2006
<i>Passed through Arizona's Governor's Office of Highway Safety</i>							
State and Community Highway Safety	20.600	2004-PT-024	23,000	22,852	22,852	-	-
State and Community Highway Safety	20.600	2004-AI-005	1,887	1,887	1,887	-	-
State and Community Highway Safety	20.600	2004-EM-003	5,100	-	-	-	-
State and Community Highway Safety	20.600	2005-PT-002	14,245	-	13,880	13,880	-
Subtotal				24,739	38,619	13,880	-
Safety Incentive Grants for Use of Seatbelts	20.604	2005-157B-012	9,000	6,758	6,758	-	-
Subtotal				6,758	6,758	-	-
Total Department of Transportation				893,274	975,227	1,171,441	1,089,488
<i>Department of Health and Human Services</i>							
<i>Passed through Arizona Governor's Community Policy Office:</i>							
Preventive Health and Health Services Block Grant	93.991	Healthy Aging (FUTS)	3,900	(537)	-	-	(537)
Total Department of Health and Human Services				(537)	-	-	(537)
<i>Department of Homeland Security</i>							
<i>Direct Programs:</i>							
Assistance to Firefighters	97.044	EMW-2005-FG-03176	45,550	-	-	41,486	41,486
Subtotal				-	-	41,486	41,486
<i>Passed through AZ Division of Emergency Management</i>							
Public Assistance Grants	97.036	1581-DR-AZ	403,208	304,098	294,960	70,183	79,321
Public Assistance Grants	97.067	2004 GE-T4-0051	311,040			265,456	265,456
Public Assistance Grants	97.067	2005 GE-T5-0051	313,020			1,033	1,033
Public Assistance Grants	97.074	2005-GE-T5-0051	74,750				-
Public Assistance Grants	97.067	2005-GE-T5-0030	1,098,721			532,041	532,041
Subtotal				304,098	294,960	868,713	877,851
Total Department of Homeland Security				304,098	294,960	910,199	919,337
Total Expenditures of Federal Awards				\$ 1,647,357	\$ 2,512,469	\$ 3,188,182	\$ 2,323,070

See the accompanying notes to this schedule.

CITY OF FLAGSTAFF, ARIZONA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2006

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 2006 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word *unknown* were used.

Note 3 – Subrecipients

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

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Community Development Block Grant	14.218	\$ 934,222

CITY OF FLAGSTAFF, ARIZONA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2006

Note 4 – Pass-Through Grantor’s Reference

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

Pass-Through Agency	Pass-Through Grantor Number
<i>US Attorneys Office, State of Arizona:</i> Antiterrorism Emergency Reserve	G04-10-PD
<i>Arizona State Land Department:</i> Cooperative Forestry Assistance	02-CA-11031600-023
Cooperative Forestry Assistance	SFA-2011
Cooperative Forestry Assistance	SFA-2021
Cooperative Forestry Assistance	SFA-3002
Cooperative Forestry Assistance	SFA-3012
Cooperative Forestry Assistance	SFA-4010
<i>State of Arizona:</i> Missing Children’s Assistance	2000-MC-CX-K018
<i>Arizona Criminal Justice Commission:</i> Byrne Formula Grant Program	AL-140-06
Byrne Formula Grant Program	AL-140-05
<i>United Way of Northern Arizona:</i> Executive Office of Weed and Seed	2004WSQ40035
<i>State of Arizona Department of Library, Archives and Public Records:</i> State Library Program	23-027 231-3-2-(3)
<i>Arizona Department of Transportation:</i> Highway Planning and Construction	T00-49-A0013
Highway Planning and Construction	T06-49-B0001
Transit Planning and Research - 2004 FTA(12)	T00-49-A0013
Transit Planning and Research - 2005 FTA(13)	T06-49-B0001

CITY OF FLAGSTAFF, ARIZONA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2006

Note 4 – Pass-Through Grantor’s Reference, continued

Pass-Through Agency	Pass-Through Grantor Number
<i>Arizona Governor’s Office of Highway Safety:</i>	
State and Community Highway Safety	2005-PT-002
State and Community Highway Safety	2004-PT-024
State and Community Highway Safety	2004-AI-005
State and Community Highway Safety	2004-EM-003
Safety Incentive Grants for use of Seatbelts	2004-157B-012
<i>Arizona Governor’s Community Policy Office:</i>	
Preventative Health & Health Services Block Grant	Healthy Aging
<i>Arizona Division of Emergency Management:</i>	
Public Assistance Grants	1581-DR-AZ
Public Assistance Grants	2004-GE-T4-0051
Public Assistance Grants	2005-GE-T5-0051
Public Assistance Grants	2005-GE-T5-0030