

CITY OF FLAGSTAFF, ARIZONA
SINGLE AUDIT ACT REPORTS
YEAR ENDED JUNE 30, 2017

**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, 2017, 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 21, 2017.

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 21, 2017



**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, 2017. 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, 2017.

Report on Internal Control Over Compliance

Management of the 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 a 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 21, 2017, 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 21, 2017

**CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

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>
14.218	CDBG – Entitlement Grants Cluster
20.106	Airport Improvement Program

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

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

**CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted

CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

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 15-601	\$ 98,100	\$ 98,100	\$ -
Cooperative Forestry Assistance-Observatory Mesa	10.664	WFHF 15-202	135,000	135,000	-
Cooperative Forestry Assistance-Observatory Mesa	10.664	WFHF 16-208	178,524	19,053	-
Cooperative Forestry Assistance-Observatory Mesa	10.664	ASF 14-601	45,000	32,268	-
Cooperative Forestry Assistance-Forest Stewardship Plan Program	10.664	FT-16-0216-ASF-A1S	8,000	3,250	-
Total Department of Agriculture - CFDA No. 10.664				287,671	-
Department of Commerce					
<i>Direct Programs:</i>					
Economic Adjustment Assistance-Business Accelerator & EOC	11.307	07-79-06817	4,000,000	24,039	-
Total Department of Commerce				24,039	-
Department of Housing and Urban Development					
<i>Direct Programs:</i>					
Community Development Block Grant 2014-2015	14.218	B-14-MC-04-0510	570,941	109,121	-
Community Development Block Grant 2015-2016	14.218	B-15-MC-04-0510	579,591	257,357	-
Community Development Block Grant 2016-2017	14.218	B16-MC-04-0510	599,050	357,414	-
Disbursements to Sub-Recipients	14.218				389,670
<i>Passed Through Coconino County, Arizona:</i>					
Community Development Block Grant	14.218	120-15	266,871	128,103	-
Subtotal - Community Development Block Grant - CFDA No. 14.218				851,995	389,670
Public and Indian Housing	14.850	AZ006-00000116D	204,553	155,276	-
Public and Indian Housing	14.850	AZ006-00000117D	153,227	132,039	-
Public and Indian Housing	14.850	AZ006-00000216D	195,663	169,492	-
Public and Indian Housing	14.850	AZ006-00000217D	175,174	150,951	-
Subtotal - Public and Indian Housing - CFDA No. 14.850				607,758	-
Public Housing Capital Fund	14.872	AZ20P00650113	348,130	12,927	-
Public Housing Capital Fund	14.872	AZ20P00650114	362,437	45,949	-
Public Housing Capital Fund	14.872	AZ20P00650115	357,680	215,146	-
Public Housing Capital Fund	14.872	AZ20P00650116	368,966	94,706	-
Subtotal - Public Housing Capital Fund - CFDA 14.872				368,728	-
Section 8 Housing Choice Voucher Cluster	14.871	AZ006	3,686,857	3,779,240	-
Lower Income Housing Assistance Program_Section 8 Moderate Rehab (Section 8 Project-Based Cluster)	14.856	AZ006MRO001/AZ006SRO001	78,909	84,704	-
Total Department of Housing and Urban Development				5,692,425	389,670
Department of Justice					
<i>Direct Programs:</i>					
Edward Byrne Memorial Justice Assistance Grant Program FY15	16.738	2015-DJ-BX-0580	20,749	6,186	-
Edward Byrne Memorial Justice Assistance Grant Program FY16	16.738	2016-DJ-BX-1002	24,330	22,675	-
<i>Passed through Arizona Criminal Justice Commission</i>					
Edward Byrne Memorial Justice Assistance Grant Program Cycle 30	16.738	DC-17-002	116,664	115,008	-
Subtotal - Edward Byrne Memorial Justice Assistance Grant Program - CFDA No. 16.738				143,869	-
Bulletproof Vest Partnership Program 2014	16.607	2014 BVP	24,453	500	-
Bulletproof Vest Partnership Program 2015	16.607	2015 BVP	9,963	7,368	-
Subtotal - Bulletproof Vest Partnership Program - CFDA No. 16.607				7,868	-
Total Department of Justice				151,737	-

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, 2017

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Contract/Grant Number	Award Amount	Expenditures	Subrecipients/ Pass-through
Department of Transportation					
<i>Direct Programs:</i>					
Airport Improvement Program-AIP 37	20.106	AIP-3-04-0015-037-2013	\$ 270,000	\$ 6,643	\$ -
Airport Improvement Program-AIP 38	20.106	AIP-3-04-0015-038-2015	293,500	227,955	-
Airport Improvement Program-AIP 39	20.106	AIP-3-04-0015-039-2015	500,000	301,076	-
Airport Improvement Program-AIP 40	20.106	AIP-3-04-0015-040-2016	15,000	15,178	-
Airport Improvement Program-AIP 41	20.106	AIP-3-04-0015-041-2017	7,890,485	5,635,706	-
Subtotal - Airport Improvement Program - CFDA No. 20.106				6,186,558	-
<i>Passed through Arizona Department of Transportation:</i>					
Highway Planning and Construction - 2011 STP	20.205	JPA11-085	477,000	117,217	-
Highway Planning and Construction - 2017 PL	20.205	JPA11-085	118,141	118,141	-
Highway Planning and Construction - 2017 SPR	20.205	JPA11-085	125,000	101,145	-
<i>Passed through Arizona State Parks:</i>					
Picture Canyon Trail Improvements	20.219	IGA 11-049-RTP 471510	74,446	22,526	-
Subtotal - Highway Planning and Construction Cluster - CFDA Nos. 20.205, 20.219				359,029	-
<i>Passed through Arizona Department of Transportation:</i>					
Highway Planning and Construction - FTA 5304 Transit Spine Study	20.505	JPA11-085	375,000	30,296	-
Public Transportation Research-2016 FTA(23)	20.514	JPA-11-085	36,733	2,424	-
Public Transportation Research-2017 FTA(24)	20.514	JPA-11-085	37,431	24,252	-
Subtotal - Public Transportation Research Grant - CFDA No. 20.514				26,676	-
<i>Passed through Arizona's Governor's Office of Highway Safety</i>					
State & Community Highway Safety-DUI/Youth Alcohol Enforcement	20.600	2016-AL-008	20,000	8,727	-
State & Community Highway Safety-DUI OT Task Force	20.600	2016-II-011	20,000	1,317	-
State & Community Highway Safety-Ped Safety Equip Bikes	20.600	2016-PS-007	8,636	631	-
State & Community Highway Safety-DUI/Youth Alcohol Enforcement	20.600	2017-AL-019	25,000	3,341	-
State & Community Highway Safety-DRE Training	20.600	2017-405D-050	5,677	26,510	-
State & Community Highway Safety-DUI OT Task Force	20.600	2017-II-006	30,000	20,227	-
State & Community Highway Safety-Emergency Medical Equip	20.600	2017-EM-002	13,500	12,146	-
Subtotal - Highway Safety Cluster - CFDA No. 20.600				72,899	-
Total Department of Transportation				6,675,458	-
Institute Of Museum And Library Services					
<i>Passed through AZ State Library,</i>					
<i>Archives & Public Records</i>					
Grants to States - Toddler Tools for Tuba City	45.310	2013 LSTA	14,070	708	-
Grants to States - Expanding Access to STEM	45.310	2014 LSTA	16,650	2,536	-
Grants to States-State Grant in Aid	45.310	2016 SGIA	25,000	5,599	-
Grants to States-State Grant in Aid	45.310	2017 SGIA	25,000	25,000	-
Grants to States-Get to Know Your Library	45.310	2016-36017-04	7,030	7,030	-
Grants to States-Environmental Stewardship	45.310	2016-36026-06	12,300	4,418	-
Grants to States-Building Community through Digital Access	45.310	2016-36001-03	6,000	5,893	-
Grants to States-Crafting Creative Communities/Tuba City	45.310	2016-36026-05	38,254	37,747	-
Grants to States-Soldier Sister, Fly Home	45.310	2016-0180-A	2,000	2,000	-
Total Institute of Museum and Library Services - CFDA No. 45.310				90,931	-
Environmental Protection Agency					
<i>Direct Programs:</i>					
Brownfields Assessment & Cleanup Cooperative Agreement	66.818	00T97401	700,000	136,490	-
Distributions to Sub-Recipients	66.818				101,909
Total Environmental Protection Agency - CFDA No. 66.818				136,490	101,909
Department of Health and Human Services					
<i>Direct Programs:</i>					
Outreach Mini Award-Health Training and Resources	93.879	NM/LM PSR 2016	2,000	1,843	-
Total Department of Health and Human Services				1,843	-
Department of Homeland Security					
<i>Direct Programs:</i>					
FEMA AFG Assistance to Firefighters	97.044	EMW-2015-FO-02646	169,450	100,270	-
<i>Passed Through Arizona Department of Homeland Security:</i>					
Homeland Security Grant Program	97.067	16-AZDOHS-HSGP-160102-01	57,708	57,708	-
Total Department of Homeland Security				157,978	-
Total Expenditures of Federal Awards				\$ 13,218,572	\$ 491,579

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, 2017

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, 2017. 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 the City, 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.

NOTE 3 INDIRECT COST

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