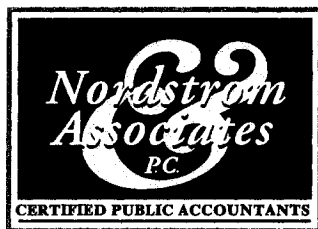


CITY OF FLAGSTAFF, ARIZONA
SINGLE AUDIT REPORT PACKAGE
JUNE 30, 2004

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**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 financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, 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, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 18, 2004. 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 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 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 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 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 the internal control over financial reporting and its operation that we considered to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated October 18, 2004.

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 18, 2004

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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, 2004. 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, 2004.

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

We have audited the financial statements of the governmental activities, business type activities, discretely presented component unit, each major fund, and aggregate remaining fund information of the City as of and for the year ended June 30, 2004, and have issued our report thereon dated October 18, 2004. Our audit was made for the purpose of forming an opinion 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 18, 2004

CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

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:

14.218	Community Development Block Grants
16.579	Byrne Formula Grant Program
8. The threshold for distinguishing 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, 2004

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2003	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2004
Department of Agriculture							
<i>Passed through Arizona State Land Department</i>							
Cooperative Forestry Assistance	10.664	SFA-2011	\$ 123,750	\$ 8,040	\$ 68,116	\$ 111,975	\$ 51,899
Cooperative Forestry Assistance	10.664	SFA-2021	55,000	11,764	17,997	30,473	24,240
Cooperative Forestry Assistance	10.664	02-CA-11031600-023	61,250	-	-	4,665	4,665
Total Department of Agriculture				19,804	86,113	147,113	80,804
Department of Housing and Urban Development							
<i>Direct Programs:</i>							
Community Development Block Grant/Entitlement Grants	14.218	B-99-MC-04-0510	732,000	1,545	3,034	1,489	-
Community Development Block Grant/Entitlement Grants	14.218	B-00-MC-04-0510	732,000	47,001	47,108	107	-
Community Development Block Grant/Entitlement Grants	14.218	B-01-MC-04-0510	757,000	1,600	14,218	12,618	-
Community Development Block Grant/Entitlement Grants	14.218	B-02-MC-04-0510	726,000	160,435	255,008	145,678	51,105
Community Development Block Grant/Entitlement Grants	14.218	B-03-MC-04-0510	758,000	142,435	218,767	199,611	123,279
Total Department of Housing and Urban Development				353,016	538,135	359,503	174,384
Department of the Interior							
<i>Direct Programs:</i>							
Historic Preservation Fund Grants-In-Aid	15.904	440003.20	341	341	341	-	-
<i>Passed through Northern Arizona University:</i>							
Cultural Resource Management	15.224	PAA 01 7002	272,207	90,000	90,000	-	-
Total Department of the Interior				90,341	90,341	-	-
Department of Justice							
<i>Direct Programs:</i>							
Gang-Free Schools and Communities_Community- Based Gang Intervention	16.544	ATC03000092	45,353	489	44,831	44,342	-
Local Law Enforcement Block Grants Program	16.592	2002-LB-BX-2883	46,286	(32,173)	-	30,574	(1,599)
Local Law Enforcement Block Grants Program	16.592	2003-LB-BX-1104	36,347	-	36,347	4,757	(31,590)
Subtotal				(32,173)	36,347	35,331	(33,189)
Public Safety Partnership and Community Policing Grants	16.710	2003UMWX0012	\$ 150,000	\$ -	\$ -	\$ 55,289	\$ 55,289
Public Safety Partnership and Community Policing Grants	16.710	2003OMWX0215	77,274	-	-	14,789	14,789
Subtotal				-	-	70,078	70,078

See the accompanying notes to this schedule.

CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2004

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2003	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2004
<i>Passed through State of Arizona</i>							
Missing Children's Assistance	16.543	2000-MC-CX-K018	\$ 7,950	\$ -	\$ -	\$ 6,242	\$ 6,242
<i>Passed through Arizona Criminal Justice Commission</i>							
Byrne Formula Grant Program	16.579	AL-140-03	219,351	86,868	86,868	-	-
Byrne Formula Grant Program	16.579	AL-140-04	213,537	-	131,838	186,672	54,834
Subtotal				86,868	218,706	186,672	54,834
<i>Passed through United Way of Northern Arizona</i>							
Executive Office of Weed and Seed	16.595	2002WSQX0017	58,000	17,048	57,716	40,952	284
Executive Office of Weed and Seed	16.595	2004WSQ40035	50,000	-	-	10,860	10,860
Subtotal				17,048	57,716	51,812	11,144
Total Department of Justice				72,232	357,600	394,477	109,109
Department of Transportation							
<i>Direct Programs:</i>							
Airport Improvement Program	20.106	AIP 3-04-0015-19	1,650,000	11,028	19,195	8,167	-
Airport Improvement Program	20.106	AIP 3-04-0015-21	5,213,792	44,099	44,099	574	574
Airport Improvement Program	20.106	AIP 3-04-0015-22	1,000,000	130,786	273,887	239,419	96,318
Airport Improvement Program	20.106	AIP 3-04-0015-23	3,050,600	9,119	204,554	639,398	443,963
Subtotal				195,032	541,735	887,558	540,855
<i>Passed through Arizona Department of Transportation:</i>							
Highway Planning and Construction-2000 STP	20.205	T00-49-A0013	50,000	50,000	50,000	-	-
Highway Planning and Construction-2002 PL	20.205	T00-49-A0013	100,000	35,387	35,387	-	-
Highway Planning and Construction-2002 SPR	20.205	T00-49-A0013	80,000	4,236	4,236	-	-
Highway Planning and Construction-2003 PL	20.205	T00-49-A0013	100,000	29,305	80,423	70,695	19,577
Highway Planning and Construction-2003 SPR	20.205	T00-49-A0013	100,000	89,105	95,237	10,895	4,763
Highway Planning and Construction-2004 PL	20.205	T00-49-A0013	100,000	-	-	75,425	75,425
Highway Planning and Construction-2004 SPR	20.205	T00-49-A0013	100,000	-	-	96,429	96,429
Highway Planning and Construction-2005 SPR	20.205	T00-49-A0013	205,000	-	-	45,551	45,551
Highway Planning and Construction-FHWA	20.205	T00-49-A0013	-	122,063	-	(122,063)	-
Subtotal				330,096	265,283	176,932	241,745
<i>Passed through Arizona Department of Transportation:</i>							
Transit Planning and Research-2002 FTA(10)	20.514	T00-49-A0013	\$ 25,803	\$ 25,803	\$ 25,803	\$ -	\$ -
Transit Planning and Research-2003 FTA(11)	20.514	T00-49-A0013	25,803	22,459	25,803	3,344	-
Transit Planning and Research-2004 FTA(12)	20.514	T00-49-A0013	25,803	-	-	7,822	7,822
Subtotal				48,262	51,606	11,166	7,822

See the accompanying notes to this schedule.

CITY OF FLAGSTAFF, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2004

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2003	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2004
<i>Passed through Arizona's Governor's Office of Highway Safety</i>							
State and Community Highway Safety	20.600	2001-163-002	\$ 15,000	\$ 3,493	\$ 3,493	\$ -	\$ -
State and Community Highway Safety	20.600	2003-RS-002	43,613	-	-	43,339	43,339
State and Community Highway Safety	20.600	2003-EM-009	4,500	-	4,500	4,500	-
Subtotal				3,493	7,993	47,839	43,339
Safety Incentive Grants for Use of Seatbelts	20.604	2003-157B-018	12,000	-	-	6,032	6,032
Safety Incentive Grants for Use of Seatbelts	20.604	2004-157B-018	16,000	-	-	12,511	12,511
Subtotal				-	-	18,543	18,543
Total Department of Transportation				576,883	866,617	1,142,038	852,304
<i>Institute of Museum and Library Services</i>							
<i>Passed through State of Arizona Department of Library, Archives and Public Records:</i>							
State Library Program	45.310	981-3-2-(2)	7,770	(2,388)	-	2,388	-
State Library Program	45.310	2001-CIP-0300	10,000	(886)	-	886	-
State Library Program	45.310	23-027 231-3-2-(03)	9,600	-	9,600	2,118	(7,482)
Total Institute of Museum and Library Services				(3,274)	9,600	5,392	(7,482)
<i>Environmental Protection Agency</i>							
<i>Passed through AZ Department of Environmental Quality</i>							
Nonpoint Source Implementation Grants	66.460	EV03-0155(09)	25,000	-	14,385	23,575	9,190
Total Environmental Protection Agency				-	14,385	23,575	9,190
<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 (Aquatics)	2,710	(700)	1,355	1,478	(577)
Preventive Health and Health Services Block Grant	93.991	Healthy Aging (Balance)	3,000	-	1,500	842	(658)
Total Department of Health and Human Services				(700)	2,855	2,320	(1,235)
Total Expenditures of Federal Awards				\$ 1,108,302	\$ 1,965,646	\$ 2,074,418	\$ 1,217,074

See the accompanying notes to this schedule.

CITY OF FLAGSTAFF, ARIZONA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2004

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 2004 *Catalog of Federal Domestic Assistance*.

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	\$ 254,501

Note 4 – Highway Planning and Construction – FHWA

Accrued revenue in the amount of \$122,063 had been reported as a carryover from the prior year. However, this grant is actually a state award, thus negative expenditures were reported to remove this grant from the schedule.

Note 5 – State Library Program Grants

State library program grant number 981-32-(2) showing expenditures of \$2,388 and state library program grant number 2001-CIP-0300 showing expenditures of \$886, were actually expended in the fiscal year 2003 but were reported in the current fiscal year to close out the grants.

CITY OF FLAGSTAFF, ARIZONA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2004

Note 6 – Pass-Through Grantor’s Reference

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

<u>Pass-Through Agency</u>	<u>Pass-Through Grantor Number</u>
Northern Arizona University:	
Cultural Resource Management	PAA 01 7002
Arizona State Land Department:	
Cooperative Forestry Assistance	02-CA-11031600-023
Cooperative Forestry Assistance	SFA-2011
Cooperative Forestry Assistance	SFA-2021
State of Arizona	
Missing Children’s Assistance	2000-MC-CX-K018
Arizona Criminal Justice Commission:	
Byrne Formula Grant Program	AL-140-03
Byrne Formula Grant Program	AL-140-04
United Way of Northern Arizona	
Executive Office of Weed and Seed	2004WSQ40035
State of Arizona Department of Library, Archives and Public Records:	
State Library Program	981-3-2-(2)
State Library Program	2001-CIP-0300
State Library Program	23-027 231-3-2-(3)
Arizona Department of Transportation:	
Highway Planning and Construction	T00-49-A0013
Transit Planning and Research - 2002 FTA(10)	T00-49-A0013
Transit Planning and Research - 2003 FTA(11)	T00-49-A0013
Transit Planning and Research - 2004 FTA(12)	T00-49-A0013
Arizona Governor’s Office of Highway Safety	
State and Community Highway Safety	2001-163-002
State and Community Highway Safety	2003-RS-002
State and Community Highway Safety	2003-EM-009
Safety Incentive Grants for use of Seatbelts	2004-157B-018
Arizona Department of Environmental Quality	
Nonpoint Source Implementation Grants	EV03-0155(09)
Arizona Governor’s Community Policy Office	
Preventative Health & Health Services Block Grant	Healthy Aging 2010