



December 30, 2015

To the Honorable Mayor and the Audit Committee
City of Flagstaff
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 (the City) for the year ended December 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 30, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 1, the City changed accounting policies related to accounting for pensions to adopt the provisions of 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*. Accordingly, the accounting change has been retrospectively applied to the financial statements beginning July 1, 2014. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

Management's estimate of the valuation of donated infrastructures is based on internal and external, as deemed necessary, estimates and studies for each donated item.

Management's estimate of the Incurred but not Reported (IBNR) liability is based on historical claims rates, management's knowledge of current year activity, and an analysis of other key factors.

Management's estimate of the landfill closure and post-closure costs related to liability is based on third-party actuarial and environmental study analysis, estimates of usage capacity remaining, and an analysis of other key factors.

Management's estimate of the net pension liability and related costs is based primarily upon analysis reports issued by each plan's administrator and other key factors.

We evaluated the key factors and assumptions used to develop the estimates listed above in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We identified the following misstatements, which were corrected by management:

An adjustment was made to remove impaired capital assets and to record associated insurance proceeds, receivables, loss due to impairment, deferred inflows of resources, and construction in process associated with the impairment of certain assets owned by the City. This adjustment increased insurance proceeds and associated receivables and deferred inflows of resources by \$289,006, reduced accumulated depreciation by \$89,000, and increased property and equipment by a net \$126,243.

An adjustment was made to remove revenue and miscellaneous receivables related to fiscal year 2016 contracts and services to be performed erroneously recorded in fiscal year 2015 in the amount of \$160,000.

The following summarizes uncorrected misstatements of the financial statements, for which management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Adjustment to reduce accrual of capital outlay expense	\$114,089
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Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 30, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Management had informed us of a potential fraud regarding a manager with the City. After further investigation management concluded that fraud had not occur, but there were poor management decisions made by the manager. As auditors we reviewed the circumstances with management and reviewed the applicable documentation and concluded that no further audit procedures relating to the situation was deemed necessary nor additional reporting required by the *Government Auditing Standards*.

Other Matters

We applied certain limited procedures to management's discussion and analysis, schedules of the City's proportionate share of net pension liabilities, schedules of changes in net pension liabilities and related ratios, and the schedule of the City's pension contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining nonmajor fund financial statements, the capital assets schedule by function and activity, the budgetary comparison of the major debt service fund and nonmajor governmental funds, and the financial data submission schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

The financial statements include the financial statements of the Municipal Facilities Corporation (MFC), a nonprofit corporation created by the City for the purpose of constructing, acquiring, and equipping municipal facilities, which for the purposes of our audit, we did not consider to be a significant component of the financial statements. Consistent with the audit of the financial statements as a whole, our audit included obtaining an understanding of the MFC and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements of the MFC and completion of further audit procedures, as determined to be necessary.

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

Very truly yours,



Phoenix, Arizona