



The Honorable Mayor and Members of City Council
City of Flagstaff, Arizona
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 the City of Flagstaff, Arizona (City) as of and for the year ended June 30, 2019, and have issued our report thereon dated December 20, 2019. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

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.

For the year ended June 30, 2019, the City adopted Governmental Accounting Standards Board Statement (GASB Statement) No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. However, the implementation of GASB Statement No. 88 did not have a significant impact on the City's financial statements or related disclosures.

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

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 financial statements were:

- Management's estimate of the capital assets' depreciation and remaining useful lives is based on an analysis of the current rate of use of certain assets. We evaluated the key factors and assumptions used to develop depreciation and the remaining useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the fair value of investments is based on a market comparison and value of similar type investments. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that they are reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the allowance for uncollectible accounts related to the City's sales tax, court revenues, and utility receivables is based on an analysis of the history of sales tax, court, and utility receivable collections. We evaluated the key factors and assumptions used to develop the allowance for uncollectible accounts related to the City's receivables in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the Other Postemployment Benefit Liability (OPEB) is based on actuarial methods and assumptions of the substantive benefit plan. We evaluated the key factors and assumptions used to develop the OPEB liability in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the current portion of the compensated absence liability, as well as the amounts earned and used is based on actual payouts made during the first two months of the fiscal year under audit and amounts earned and used over an average of the past two years, respectively. We evaluated the key factors and assumptions used to develop the current portion, earned, and used amounts of the compensated absence liability in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the landfill closure and postclosure care liability is based on an engineer's estimate of landfill capacity used and projected estimated costs utilizing inflation factors. We evaluated the key factors and assumptions used to develop the estimated closure and postclosure care costs in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the unfunded pension liability related to the Arizona State Retirement System, Elected Officials pension plans and Public Safety Personnel Retirement System Plan benefits are based on actuarial reports prepared by other professionals. We reviewed the key assumptions used to estimate the liability in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

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.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

The following material misstatement was detected as a result of audit procedures and was corrected by management.

- A capital related expenditure in the Capital Projects Bond Construction Fund incurred at or near year end was recorded in the incorrect fiscal year.

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 auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated December 20, 2019.

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 City's financial statements or a determination of the type of auditors' 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.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement 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 engagement.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the schedule of expenditures of federal awards (SEFA) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the SEFA to determine that the SEFA complies with the requirements of the Uniform Guidance, the method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated December 20, 2019.

With respect to the schedule of expenditures of passenger facility charges (Schedule) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the Schedule to determine that the Schedule complies with the requirements of the Passenger Facility Charge Audit Guide for Public Agencies issued by the Federal Aviation Administration, the method of preparing it has not changed from the prior period or the reasons for such changes, and the Schedule is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the Schedule to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated December 20, 2019.

With respect to the nonmajor combining statements and schedules and the supplemental information (capital assets used in the operations of governmental funds, the budgetary comparison schedules for nonmajor governmental funds and the federal financial data schedule) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, 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 or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated December 20, 2019.

The introductory and statistical sections accompanying the financial statements, which are of a nonaccounting nature and which are the responsibility of management, were prepared for purposes of additional analysis and are not a required part of the financial statements. Such information was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we did not express an opinion or provide any assurance on it.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
December 20, 2019