



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, 2022, and have issued our report thereon dated January 30, 2023. 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 in our engagement letter dated July 20, 2022. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant audit findings or issues**

#### ***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 City of Flagstaff, Arizona are described in Note 1 to the financial statements.

As described in Note 1., the City changed accounting policies related to leases by adopting Statement of Governmental Accounting Standards Board (GASB Statement) No. 87, *Leases*, in 2022. The implementation of GASB Statement No. 87 resulted in the recording of lease assets, receivable, lease liability and a deferred inflows of resources.

We noted no transactions entered into by the entity 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 and long-term 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 and long-term 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 net 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.
- Management's estimate of the net present value of the right to use assets, lease receivable, lease liability, deferred inflows of resources, lease revenue and lease expense are based on the remaining noncancellable lease term-terms (including lease options) beginning July 1, 2021 and an estimated discount rate applied to the leases as of July 1, 2021. We reviewed the key assumptions used for the estimates 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.

#### **Significant unusual transactions**

We identified no significant unusual transactions.

***Difficulties encountered in performing the audit***

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

The completion of our audit was delayed due to the implementation of the new lease standards.

***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***

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

***Disagreements with management***

For purposes of this communication, a disagreement with management is a disagreement on 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.

***Circumstances that affect the form and content of the auditors' report***

As previously communicated to you, the report was modified to include an emphasis of a matter to indicate the adoption of GASB Statement Number 87.

***Management representations***

We have requested certain representations from management that are included in the management representation letter dated January 30, 2023.

***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 entity'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 entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

### **Required supplementary information**

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.

### **Supplementary information in relation to the financial statements as a whole**

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 January 30, 2023.

With respect to the combining nonmajor fund financial statements and the supplemental information (budgetary comparison schedules for nonmajor governmental funds and the financial data submission schedules) (collectively, the supplementary information) 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 supplementary 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 January 30, 2023.

### **Other information included in annual reports**

Other information (financial or nonfinancial information other than the financial statements and our auditors' report thereon) is being included in your annual report and is comprised of the introductory and statistical section. Our responsibility for other information included in your annual report does not extend beyond the financial information identified in our opinion on the financial statements. We have no responsibility for determining whether such other information is properly stated and do not have an obligation to perform any procedures to corroborate other information contained in your annual report. We are required by professional standards to read the other information included in your annual report and consider whether a material inconsistency exists between the other information and the financial statements because the credibility of the financial statements and our auditors' report thereon may be undermined by material inconsistencies between the audited financial statements and other information. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Our auditors' report on the financial statements includes a separate section, "Other Information," which states we do not express an opinion or any form of assurance on the other information included in the annual report. We did not identify any material inconsistencies between the other information and the audited financial statements.

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This communication is intended solely for the information and use of the Honorable Mayor, members of City Council, and management of 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  
January 30, 2023