



**City of Cottonwood, Arizona**  
**Single Audit Reporting Package**  
Year Ended June 30, 2016

**CITY OF COTTONWOOD, ARIZONA  
SINGLE AUDIT REPORTING PACKAGE  
FOR THE YEAR ENDED JUNE 30, 2016**

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**Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with  
*Government Auditing Standards***

Independent Auditor's Report

Honorable Mayor and Members of the City Council  
City of Cottonwood, 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 City of Cottonwood, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Cottonwood, Arizona's basic financial statements, and have issued our report thereon dated December 20, 2016. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No.72.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Cottonwood, Arizona'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 City of Cottonwood, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Cottonwood, Arizona'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item FS-2016-001 that we consider to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Cottonwood, Arizona'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*.

### City of Cottonwood, Arizona's Response to Findings

City of Cottonwood, Arizona's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Cottonwood, Arizona's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Heinfeld, Meech & Co., P.C.*

Heinfeld, Meech & Co., P.C.  
Phoenix, Arizona  
December 20, 2016

**Report on Compliance for Each Major Federal Program;  
Report on Internal Control Over Compliance; and  
Report on Schedule of Expenditures of Federal Awards  
Required by the Uniform Guidance**

Independent Auditor's Report

Honorable Mayor and Members of the City Council  
City of Cottonwood, Arizona

**Report on Compliance for Each Major Federal Program**

We have audited City of Cottonwood, Arizona's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Cottonwood, Arizona's major federal programs for the year ended June 30, 2016. City of Cottonwood, Arizona's major federal programs are identified in the summary of auditor's 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.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of City of Cottonwood, Arizona'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 City of Cottonwood, Arizona'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 City of Cottonwood, Arizona's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, City of Cottonwood, 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, 2016.

### **Report on Internal Control Over Compliance**

Management of City of Cottonwood, Arizona 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 City of Cottonwood, Arizona'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 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 City of Cottonwood, Arizona'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 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.

### **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 City of Cottonwood, Arizona as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Cottonwood, Arizona's basic financial statements. We issued our report thereon dated December 20, 2016, 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 taken as a whole.

*Heinfeld, Meech & Co., P.C.*

Heinfeld, Meech & Co., P.C.  
Phoenix, Arizona  
December 20, 2016

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2016**

<b><u>Federal/Pass- Through/Agency</u></b>	<b><u>CFDA Number</u></b>	<b><u>Federal Award Number</u></b>	<b><u>Total Expenditures and Transfers</u></b>
<b><u>U.S. Department of Transportation</u></b>			
Passed through Arizona Department of Transportation:			
Airport Improvement Program	20.106	03-04-0012-016-2015	\$ 100,398
Highway Planning and Construction	20.205	SH578	18,303
Formula Grants for Rural Areas	20.509	ADOT GRT 14-0004675	126,288
Formula Grants for Rural Areas	20.509	ADOT GRT 15-0005554	765,291
Passed through Arizona Governor's Office of Highway Safety:			
State and Community Highway Safety	20.600	2015-PT-065	46,390
State and Community Highway Safety	20.600	2015-PT-010	3,628
State and Community Highway Safety	20.600	2016-PT-008	7,470
State and Community Highway Safety	20.600	2016-PT-058	8,348
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	2015-HV-005	5,244
National Priority Safety Programs	20.616	2016-II-008	16,921
Total Highway Safety Cluster			<u>88,001</u>
<b>Total U.S. Department of Transportation</b>			<u>1,098,281</u>
<b><u>U.S. Department of Homeland Security</u></b>			
Passed through Arizona Department of Homeland Security:			
Homeland Security Grant Program	97.067	13-AZDOHS-HSGP-130501-02	70,656
Homeland Security Grant Program	97.067	15-AZDOHS-HSGP-150503-01	29,945
<b>Total U.S. Department of Homeland Security</b>			<u>100,601</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Passed through Arizona Department of Housing:			
Community Development Block Grants/Entitlement Grants	14.218	124-16	15,609
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,214,491</u>

See accompanying notes to schedule.

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2016**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of City of Cottonwood, Arizona under programs of the federal government for the year ended June 30, 2016. The information in the Schedule is presented in accordance with the requirements of the 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.

**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 applicable Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Any negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

**NOTE 3 – CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS**

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2016 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word “unknown” were used.

**NOTE 4 – INDIRECT COST RATE**

The City has not elected to use the 10% de minimis cost rate as covered in §200.414 Indirect (F&A) costs.

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**Summary of Auditor's Results:**

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Significant deficiency(ies) identified: Yes
- Material weakness(es) identified: No

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major programs:

- Significant deficiency(ies) identified: No
- Material weakness(es) identified: No

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 §200.516 of Uniform Guidance: No

Identification of major programs:

CFDA Numbers  
20.509

Name of Federal Program or Cluster  
Formula Grants for Rural Areas

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

Auditee qualified as low-risk auditee: No

**Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*: Yes**

**Findings and Questioned Costs Related to Federal Awards: No**

**Summary Schedule of Prior Audit Findings required to be reported: Yes**

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Finding Number:** FS-2016-001

**Repeat Finding:** Yes - FS-2015-001

**Type of Finding:** Significant Deficiency

**Description:** Internal Controls Over Accounting Records

CRITERIA

City management is responsible for establishing and maintaining internal controls to ensure that all account balances are properly recorded in the financial statements in accordance with generally accepted accounting principles (GAAP).

CONDITION

Audit adjustments were necessary to properly state the account balances within the City's financial records.

CAUSE

The City does not have an adequate review process in place to ensure journal entries are made properly.

EFFECT

The City's accounting records required adjustments to properly state financial activity for the year. However, the adjustments noted below were not material to the overall financial statements.

CONTEXT

The following errors were noted related to the City's accounting records:

- Principal expense and loan payable in the Debt Service Fund were understated by \$35,000.
- Interest expense and interest payable in the Debt Service Fund were overstated by \$35,000.
- Bond premium in the Water and Sewer Funds was not amortized for the year, resulting in overstatement of interest expense of \$29,412.
- The compensated absences balances were understated by \$55,494 in the Water and Sewer Funds.
- The Due To/From account balance across all funds did not balance by \$24,997.
- Unavailable revenues and revenues were misstated by \$99,709.
- One of six capital asset additions reviewed was not recorded at the correct value. The addition was recorded at \$175,980, rather than \$17,598 resulting in an overstatement of \$152,382.
- One capital asset costing \$38,160 which was previously reported as construction in progress was removed from construction in progress during the year since the asset was completed, however the asset was not recorded as an addition to the appropriate depreciable capital asset category.

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Finding Number:** FS-2016-001

**RECOMMENDATION**

Account balances within the financial records should be agreed to the supporting schedules by someone other than the individual responsible for preparing the schedules and updating the financial records to ensure that adjustments are recorded for the proper amounts and account codes.

**VIEWS OF RESPONSIBLE OFFICIALS**

See Corrective Action Plan.



January 9, 2017

To Whom It May Concern:

The accompanying Corrective Action Plan has been prepared as required by U.S. Office of Management and Budget Uniform Guidance. The name of the contact person responsible for corrective action, the planned corrective action, and the anticipated completion date for each finding included in the current year's Schedule of Findings and Questioned Costs have been provided.

In addition, we have also prepared the accompanying Summary Schedule of Prior Audit Findings which includes the status of audit findings reported in the prior year's audit.

Sincerely,

Jesus R. Rodriguez  
Administrative Services General Manager

**CITY OF COTTONWOOD, ARIZONA  
CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2016**

**Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards***

Finding Number: FS-2016-001

Contact Person: Jesus R. Rodriguez, Administrative Services General Manager

Anticipated Completion Date: Fiscal Year 2017

Planned Corrective Action: Finding Number FS-2016-001 references errors in journal entries. The finance staff make every effort to ensure that each and every entry is correct. Unfortunately, and occasionally, entries that are in error do get past the review process. We understand that this may not always be 100 percent unavoidable, however, our current review process is lacking. We evaluate our review procedures for ways to improve the process and continue to reduce these type of errors.

We have improved our procedure and eliminated many of the previous year's findings and will do the same with this finding. A closer review of journal entries will help reduce and possibly eliminate these type of errors.

**CITY OF COTTONWOOD, ARIZONA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2016**

**Status of Findings Related to Financial Statements Reported in Accordance with  
*Government Auditing Standards***

Finding Number: FS-2015-001

Status: Partially Corrected.

Planned Corrective Action: See Corrective Action Plan for Finding FS-2016-001.

Finding Number: FS-2015-002

Status: Fully Corrected.