

CITY OF COTTONWOOD, ARIZONA

**SINGLE AUDIT ACT REPORTS**

FOR THE

FISCAL YEAR ENDED JUNE 30, 2006

CITY OF COTTONWOOD, ARIZONA  
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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**

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Cottonwood, Arizona (City) as of and for the year ended June 30, 2006, and have issued our report thereon dated March 30, 2007. 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 in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether the City's 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 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 that are required to be reported under *Government Auditing Standards*. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Town in a separate letter dated March 30, 2007.

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 opinions on the financial statements and not to provide an opinion 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 over financial reporting that might be material weaknesses. A material weakness is a reportable 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 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 consider to be material weaknesses.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the City Council, 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. However, this report is a matter of public record and its distribution is not limited.

*Cronstrom, Osuch & Company, P.C.*

Cronstrom, Osuch & Company, P.C.

March 30, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

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

We have audited the compliance of the City of Cottonwood, Arizona (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, 2006. The City's major federal programs are identified in the summary of auditor's 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, 2006.

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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud 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 the internal control over compliance and its operation that we consider to be material weaknesses.

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2006, and have issued our report thereon dated March 30, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City'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 solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the City Council, 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. However, this report is a matter of public record and its distribution is not limited.

*Cronstrom, Osuch & Company, P.C.*

Cronstrom, Osuch & Company, P.C.

March 30, 2007

CITY OF COTTONWOOD, ARIZONA  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
FISCAL YEAR ENDED JUNE 30, 2006

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

Type of auditor's report issued: *Unqualified*  
Internal control over financial reporting:  
• Material weakness(es) identified? \_\_\_\_\_ yes  X  no  
• Reportable condition(s) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes  X  none reported  
Noncompliance material to financial statements  
noted? \_\_\_\_\_ yes  X  no

***Federal Awards***

Internal Control over major programs:  
• Material weakness(es) identified? \_\_\_\_\_ yes  X  no  
• Reportable condition(s) identified not  
considered to be material weaknesses? \_\_\_\_\_ yes  X  none reported  
Type of auditor's report issued on compliance  
for major programs: *Unqualified*  
Any audit findings disclosed that are  
required to be reported in accordance  
with Circular A-133, Section .510(a)? \_\_\_\_\_ yes  X  no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant

Dollar threshold used to distinguish  
between Type A and Type B programs: \$ 300,000  
Auditee qualified as low-risk auditee?  X  yes \_\_\_\_\_ no

CITY OF COTTONWOOD, ARIZONA  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
FISCAL YEAR ENDED JUNE 30, 2006

**SECTION II—FINANCIAL STATEMENT FINDINGS**

None noted.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None noted.

**SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

None noted.

CITY OF COTTONWOOD, ARIZONA  
 SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FISCAL YEAR ENDED JUNE 30, 2006

Grantor Agency	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Justice			
Passed through Arizona Criminal Justice Commission			
Local Law Enforcement Block Grant	16.592	LLBG-03-144	\$ 270
National Criminal History Improvement Program	16.554	NCH-04-102	147,554
Internet Crimes Against Children	16.Unknown	2005-MC-CX-K009	5,295
Total U.S. Department of Justice			<u>153,119</u>
U.S. Department of Transportation			
Airport Improvement Grant	20.106	N/A	180,662
Passed through Arizona Department of Transportation:			
Federal Transit Capital and Operating Assistance	20.507	KR04-1135TRN	42,503
Federal Transit Capital and Operating Assistance	20.507	KR05-0741TRN	161,853
Passed through Governor's Office of Highway Safety:			
Highway Safety Grant	20.600	2004-AL-004	13,276
Total U.S. Department of Transportation			<u>398,294</u>
U.S. Department of Housing and Urban Development			
Passed through the Arizona Department of Commerce:			
Community Development Block Grant	14.228	143.04	114,393
Community Development Block Grant	14.228	146.04	61,886
Community Development Block Grant	14.228	331.04	173,015
Total U.S. Department of Housing and Urban Development			<u>349,294</u>
TOTAL FEDERAL AWARDS			<u>\$ 900,707</u>

(1) This schedule was prepared using the modified accrual basis of accounting.