

**CITY OF COTTONWOOD, ARIZONA  
SINGLE AUDIT REPORTING PACKAGE  
FOR THE YEAR ENDED JUNE 30, 2015**

**CITY OF COTTONWOOD, ARIZONA  
SINGLE AUDIT REPORTING PACKAGE  
FOR THE YEAR ENDED JUNE 30, 2015**

<b><u>CONTENTS</u></b>	<b><u>Page</u></b>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
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 OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8
Summary Schedule of Prior Audit Findings	13

**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, 2015, 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 23, 2015. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 68, as amended by Statement No. 71.

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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items FS-2015-001 and FS-2015-002 that we consider to be significant deficiencies.

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

### 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.  
CPAs and Business Consultants

December 23, 2015

**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 OMB Circular A-133**

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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 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 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, 2015.

### **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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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, 2015, 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 23, 2015, 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 OMB Circular A-133 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.  
CPAs and Business Consultants

December 23, 2015

**CITY OF COTTONWOOD, ARIZONA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2015**

<b><u>Federal Grantor/Pass-Through Grantor/Program Title</u></b>	<b><u>CFDA Number</u></b>	<b><u>Pass-Through Grantor's 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	03-04-0012-015-2013	11,528
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	SH578	22,335
Formula Grants for Rural Areas	20.509	AZ-18-0066-G6611\$	1,084,190
Formula Grants for Rural Areas	20.509	AZ-18-0060-G6018	101,778
Passed through Arizona Governor's Office of Highway Safety:			
State and Community Highway Safety	20.600	2014-PT-024	5,270
State and Community Highway Safety	20.600	2014-AL-018	4,002
State and Community Highway Safety	20.600	2015-PT-010	2,372
State and Community Highway Safety	20.600	2015-HV-005	8,841
			<hr/>
<b>Total U.S. Department of Transportation</b>			<b>1,240,316</b>
			<hr/>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 1,240,316</b>
			<hr/> <hr/>

**CITY OF COTTONWOOD, ARIZONA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2015**

**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, 2015. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 OMB cost principles circular, 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 2015 *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.

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2015**

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?       yes   X  no
- Significant deficiency(ies) identified?   X  yes       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
- Significant deficiency(ies) identified?       yes   X  none reported

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 section 510(a) of OMB Circular A-133?       yes   X  no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.509	Formula Grants for Rural Areas

Dollar threshold used to distinguish between Type A and Type B programs:   \$300,000  

Auditee qualified as low-risk auditee?       yes   X  no

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2015**

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

**Reference Number:** FS-2015-001

**Type of Finding:** Significant Deficiency

**Description:** Internal Control Deficiencies Over Capital Asset Reporting

CRITERIA

City management is responsible for establishing and maintaining internal controls that include the preparation of complete and accurate capital assets schedules for inclusion in the financial statements.

CONDITION/CONTEXT

During our review of capital asset schedules and internal controls over capital asset reporting, we noted the following deficiencies:

- The City has not taken a physical inventory of capital assets and reconciled the results to the capital asset records.
- The City did not have adequate segregation of duties over preparation of the capital assets listings. The addition of assets to the listings, the reconciliation of the listings, and the computation of depreciation is performed by the same individual. A separate individual does review the listing of capital asset additions and deletions, however that same individual does not review reconciliations of those listings to the master asset listing.
- The capital asset listings recorded in the City's accounting software were not reconciled to subsidiary spreadsheets and discrepancies were not investigated.
- Numerous errors were noted relating to accumulated depreciation which caused the beginning accumulated depreciation balance in fiscal year 2015 to be understated by an immaterial amount.
- Seven capital assets were omitted from the capital asset listing. Furthermore, several assets did not have an original cost or accumulated depreciation reported for the asset.

CAUSE

The City has not dedicated sufficient resources to the development of an adequate system of internal controls over capital asset reporting. In addition, the City has not implemented best practices due to budgetary constraints.

EFFECT/POTENTIAL EFFECT

Internal controls were not in place to ensure that misstatements would be prevented and/or detected.

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2015**

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

**Reference Number:** FS-2015-001

**RECOMMENDATION**

The City should perform a physical inventory of capital assets and reconcile the results to the capital asset records. In addition, reconciliations of asset amounts in the City's accounting software should be reconciled with subsidiary spreadsheets and those spreadsheets should be reviewed by appropriate personnel.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS**

The City of Cottonwood is currently soliciting bids for a citywide Fixed Asset Inventory. This will help us find missing items and delete items that are no longer in our inventory. As for internal controls, being a small community there are only so many resources to go around. We will do our best to segregate the responsibilities in the future.

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2015**

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

**Reference Number:** FS-2015-002

**Type of Finding:** Significant Deficiency

**Description:** Internal Control Deficiencies Over Utility Receivable Reporting

CRITERIA

City management is responsible for establishing and maintaining internal controls over the reporting of receivables and allowances in the Water and Sewer Funds.

CONDITION/CONTEXT

The City has not analyzed uncollectible amounts in the Water Fund to verify that allowances are proper based on historical evidence. In addition, the City has not reconciled balances reported on the Water and Sewer charges aging report to the general ledger accounts receivable balance.

CAUSE

The City has not dedicated sufficient resources to the analysis and reconciliation of these balances due to budgetary constraints.

EFFECT/POTENTIAL EFFECT

Internal controls were not in place to ensure that misstatements would be prevented and/or detected.

RECOMMENDATION

The City should review historical collection percentages of Water charge receivables and document an assessment of whether or not changes to the calculation method of allowance balances are necessary based on the historical evidence. In addition, the City should reconcile the aging report to the general ledger receivable balance and adjust the general ledger as necessary.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The City has looked for a template to base a policy on and has not been very successful. We will continue our search and hope to find a reasonable template that is not too onerous to manage. We also do not have the resources available at this time and will make efforts to correct the issue in the next few months.

**CITY OF COTTONWOOD, ARIZONA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2015**

**FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS**

None reported.

**CITY OF COTTONWOOD, ARIZONA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2015**

**Status of Federal Award Findings and Questioned Costs**

Reference Number: 2014-001

Program: Formula Grants for Rural Areas

CFDA Number: 20.509

Status: Corrected.